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Editorial . . .

Does a new Conservative government in Ottawa after 22 years of Liberal rule mean a change in Canadian commercial policy? In lieu of adding to Canada's $1.5 billion deficit with U.S., the Rt. Hon. Diefenbaker lost no time in suggesting a 15% switch to sterling goods and at Mont Tremblant the British delegation followed the Canadian premier's lead, proposing a mutual and steady reduction of tariffs leading towards free trade 12 years hence. This proposal was, however, immediately countered by a shout of disapproval coming loudest from the subsidiaries of American companies sheltering snugly behind the present Canadian tariff wall.

International trade has changed from being a simple problem of exports, imports, "invisibles" and capital movements. With Sir Geoffrey Crowther, whose latest book is reviewed in this issue, businessmen have long since realized that, during our lifetime and despite G.A.T.T. and I.M.F., other currencies are not going to be freely convertible into dollars. Consequently they have adapted themselves rapidly by the devices of the foreign subsidiary and international export division, so that today American-owned subsidiaries, for example, manufacture abroad three times the value of U.S. exports of manufactures.

Canadian commercial policy thus involves not only a look at exports and imports but also at the growth of foreign investment in Canada, which in the short run may help finance a fantastic rate of growth through an adverse balance of payments but which in the long run spells a burden of repayment which causes "an intangible sense of disquiet in Canada over the political implications of large scale and continuing external ownership and control of Canadian industries." A special study of foreign subsidiaries in Canada will consequently be spread over three articles beginning in this issue.

Letters to the Editor . . .

After considerable exertions I have finally managed to get hold of the issue of the Business Quarterly containing Dr. Kohr's article on the Aspirin standard, from which I also learned that he was expecting to publish a book on the subject.

It is very seldom that I can say of an economic article, "I wish I had written that." This is one of those rare cases; not since "The Lonely Crowd" have I read anything that casts so much light on our present predicament. If the new book is anything like it, I shall want to review it, and if necessary even buy it—a supreme tribute from one who spends twenty years in the publishing trade and is almost physically incapable of buying anything between covers at retail price.

Perhaps you can enlighten me: has there not been something resembling a conspiracy of silence about your article? I stumbled on a reference to it many months ago in the McGraw-Hill Business Digest, and otherwise it might have been published in Urdu for all the comment I have seen.

Barrows Mussey,
Editorial Director,
"Made in Europe",
Frankfurt, Germany.

Dr. Kohr's article kept me awake a whole night, first to read it through to the end and then because I disagreed so strongly. Does he write all the time with his tongue in his cheek? Does he think it practical for us to split up in the West unless the Russians split up in the East?

David Field,
Montreal.

Dr. Kohr's was the most fascinating article I have read in any magazine for months. How refreshing to find an economist who writes well and who is so catholic in his reading.

(Continued on Page 245)

About Our Authors . . .

The Hon. **Alvin Hamilton** of Saskatoon here clearly outlines the business potential of the Northern Territories. He was elected leader of the Saskatchewan Progressive Conservatives in 1949, became a member of the Federal Parliament and also Minister of Northern Affairs and National Resources in 1957.

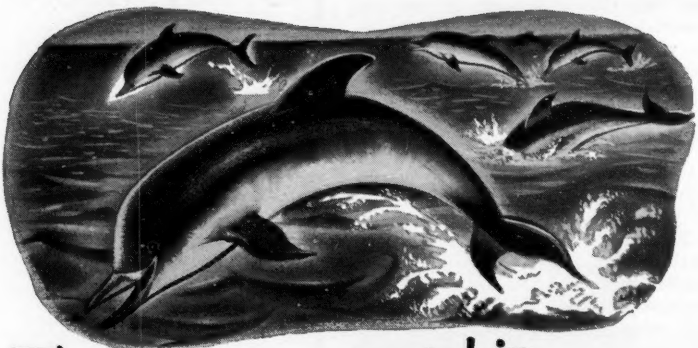
Prewar assistant financial editor of the News Chronicle and correspondent of The Economist in London, England, postwar director of U.K. information services in Canada, **Gordon Huson** combines editing The Business Quarterly with teaching international trade and investment management. He holds degrees from London and Paris and is a barrister-at-law.

Dr. Donald Thain, Assistant Professor of Business Administration at the University of Western Ontario, B.A. Toronto, obtained his M.B.A. and D.B.A. from Harvard University, where he also spent three years teaching. He previously wrote "Selling at Trade Shows" (Spring, 1957).

S. H. Sutherland has been economic adviser to the Ford Motor Company of Canada since 1950. Previously he was economist with the Great West Life Assurance Company in Winnipeg. Educated in Manitoba, he did postgraduate work in the East and during the war was director of the economics and statistics branch at the Department of Munitions and Supply and secretary of the munitions assignment committee.

Eric Curwain, a previous contributor to The Business Quarterly, "Advertising for Export" (Spring 1955), "Trade — Round the World and Round the Clock" (Fall 1955), is now a public relations consultant. He was formely with the Canadian International Trade Fair.

(Continued on Page 245)



ABOUT OUR AUTHORS - *Cont.*

Walter A. Thompson, Director of the Management Training Course and Associate Dean of the School of Business Administration, has been associated with the school since his graduation from the Harvard Business School in 1930 except for the war years when he was in charge of the research division of the Office of Price Administration in Washington, D.C.

Letters to the Editor cont.

The trouble is that like all economic theories which advocate clearly a course of action, e.g. free trade, convertibility of currencies, the disaster of monopoly, his theories are equally remote from realization in this big-scale world. But at least it is good to see where the cancer lies in our present society.

Arthur Rowell,
Ottawa.

Retail Stores—Where to Locate

If the authors of this interesting survey of vantage sites in the London area are so sure of their notions, why dont' they form a company and buy up the available land, backing up their theories by practice?

Gordon Livingstone,
London.

Gordon Commission Report

Certainly J. C. Mills is right that this preliminary report is only an hors d'oeuvres to whet the appetite, suffering as it does from a paucity of facts and figures from which it is difficult to follow how the commissioners reach their conclusions. Surely in such an important matter for Canada as the marketing of wheat, better reasons are needed before we accept without question the present monopoly of the Wheat Board?

Alexander McTavish,
Winnipeg.

Ed.—Read the case in this issue, "Wheat Pricing, Free or Fixed?"

CANADIAN TAXATION

— and the businessman

K. W. Lemon, F.C.A.

THE Canadian Income Tax Act contains full and detailed sections purporting to provide protection to the taxpayer who chooses to dispute the treatment he has been accorded by the taxation authorities. These include provision for notices of objection which result in a further review of the assessment in question by The Minister of National Revenue (or his servants), low-cost, informal appeals to The Income Tax Appeal Board and, where required, further appeals to The Exchequer Court and even to the Supreme Court of Canada. Protection is also given, except in cases of fraud or misrepresentation, against increased assessments issued long after the event (a once-popular practice). A recent amendment to the Act has reduced to four years the period during which the Minister can re-assess after an original assessment has been issued.

All of these protective sections which have been carefully worded by Parliament would appear to the unitiated to provide the taxpayer with adequate right of redress. Unfortunately, however, interpretations placed on the statute by the courts over the years have denied the unwary taxpayer much of the protection which Parliament apparently intended.

"Nil" Assessments

In 1955 five justices of The Supreme Court of Canada ruled unanimously that an "assessment" issued by the taxation authorities showing no taxes owing (i.e. an assessment issued in respect of a loss year or to an individual taxpayer whose personal exemptions exceed his income) is not an assessment—notwithstanding that the document issued in such

cases is headed "Notice of Assessment (or re-assessment)". This judgement has far-reaching and unfortunate effects in that it denies to many taxpayers the rights apparently granted to them under the protective sections referred to above. Already this decision has been applied by the lower courts to the detriment of taxpayers in cases such as the following:

(a) A taxpayer who had excluded from his taxable income in 1947 a receipt of $25,000 which he considered to be of capital nature found himself assessed to tax on this amount in 1955. On attempting to resist the 1955 re-assessment on the basis that it was issued long after the expiry of the statutory time from the date of the original assessment issued in 1947, he was denied this protection because the "original assessment" which showed no taxes payable was ruled to be not an assessment at all.

(b) A farmer whose claim to average his income for the years 1949 to 1953 (a special privilege accorded by The Income Tax Act to farmers and fishermen) had been denied by the authorities found that the courts were unable even to consider the subject matter of his appeal because he had received a "nil" assessment for the last year in the proposed averaging period.

In a further case a taxpayer had made a gift to his son in 1947 and being unaware of the implication of the gift tax sections had failed to pay gift tax although the gift was disclosed in financial statements filed with the authorities at the time. On attempting to resist a gift tax assessment which was finally issued in 1954 on the basis that it was not made within the statutory time limit, the donor found his defence denied as no original assessment had been issued.

Further unfortunate consequences can be anticipated from these decisions as taxpayers in loss years will be denied any immediate right of appeal against adjustments made by the authorities to the amount of losses claimed for carry-forward purposes. This could be particularly serious in the case of a series of losses where the taxpayer would have no right of objection to depreciation and other adjustments which could adversely affect taxable income earned in subsequent years.

The cumulative effect of decisions such as those referred to above was summed up cryptically in a recent case before The Income Tax Appeal Board, when the presiding member of the Board in dismissing a taxpayer's appeal "against his own inclinations, but on the strength of precedent", observed sadly that judge-made law had developed to an extent hardly contemplated by the authors of the taxation statute.

It is earnestly to be hoped that our legislators will not hesitate to cut through this accumulating morass of precedent with legislation which will restore to Canadian taxpayers the benefit of provisions carefully designed for their protection.

FOREIGN CONTROL *of* CANADIAN BUSINESS

Gordon Huson

Asked to sanction the manufacture of a new product in Canada, a chief executive of General Motors recently refused: "They do not want our money and investment up there. We'd better go slow for the time being. If we manufacture any place outside the United States, why not make it in Britain so that we can sell in the sterling area and also help chief Dief to increase Canada's imports from the United Kingdom by 15%?" Such is the effect of loose talk—a slowdown of U.S. investment—if continued, it could cause a stoppage, possibly a backwards flow.

What, if anything, is wrong with all this foreign investment in Canada? It has enabled Canada to have a ten-year plan of capital expansion, unequalled by any country in the world and unaccompanied by any belt-tightening austerity. Yet, woolly and irritant Canadian criticism persists, based on a pervasive fear that Canada is selling her birthright, allowing foreigners to buy the total equity of Canada's growth industries and excluding Canadians for all time from a share; that we have admitted a Trojan horse, likely to prove faithless in adversity. Yet, what should a successful sixty-year-old Canadian businessman do if offered twenty times the earnings of his business by a big U.S. corporation?

WHAT harm is done to Canada, when a local private business sells out to foreign owners? The Canadian owners are usually paid more than they thought their business was worth, even in their wildest dreams; more often than not, they and their staff are kept on at substantially increased salaries and the scale of the business is expanded, providing more local employment.

Who loses? Obviously, in the short run, there has been no loss to Canada, even though providing more money to owners and employees may be adding to the fires of inflation. Even in the long run, provided the owners invested their money in the equity of industries growing still faster there would also be gain. But that is precisely what does not happen. The former owners play it safe; take out more insurance; invest half in bonds and the remainder in well-established "blue chips" (already bid up by American investment funds); they take a view bounded by their own life expectancy, while the U.S. company is thinking and planning for twenty or more years ahead. For a happy present the owners may have sold the future of their children.

How can an individual afford to take as long a view ahead as a company? When Canadian General Electric announced that in future years its U.S. management intended to plough back a higher proportion of earnings and pay out not 41% but only 25% each year in dividends, the market price of the shares, dependent not a little on yield, naturally tended to slump, and Canadian owners jumped at the U.S. parent's offer to buy them out. All but a handful could not afford to take any but the short view. Where profits and losses are so personal, one has to be practical.

The situation as it has evolved today in Canada was certainly never foreseen by the classical economists, whose "businessman" in the words of Taussig: "do not try to look ahead".[1] Khrushchev has recently criticized his Marxist economists for being "too bookish". The same criticism can be levelled against our own laissez-faire economists. Far more studies and practical research are needed in the changing problems created by big size and the longer view, the changing time factor in present-day capitalism. We have created new legal beings, the corporations, who not only never die but are today thinking and planning far further ahead than both individuals and governments have ever done in the past. The bigger they are the further ahead are they able to plan. What with taxation, while both alive and dead, the individual and the small company cannot afford to invest so much so far in the future and so they sell out to the bigger boys, who neither die nor pay death duties. And the biggest in Canada are the Americans.

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[1]F. W. Taussig, "Principles of Economics", MacMillan & Co., p.148.

And so foreign investment in Canada has grown and now presents two problems: first, its size in relation to the total economy; and, secondly, the behaviour of the 5,000 foreign-owned companies.

Extent of Foreign Control

If foreign controlled business in Canada represented only a small fraction of the total economy, there would be no problem. Free market forces, prices and competition would be sufficient natural spurs and checks.

D.B.S. figures[2] however, show the following proportions of Canadian industries controlled outside Canada:

	1953 %	1954 %	1955 %
Petroleum	70	70	80
Mining	55	56	
Manufacturing	49	51	

Of these industries, however, the large firms with an investment of over $25 million are in virtual control, wage-fixing, pace-setting, price-leading and owning the following proportion of the total assets of the industry:

	1953 %
Petroleum (13 firms)	58
Mining (14 firms)	61
Manufacturing (55 firms)	42

Of these large firms, the following proportion are owned and controlled outside Canada:

	1953 %
Petroleum	81
Mining	68
Manufacturing	54

In Canadian manufacturing industry in 1953 the average capital investment per establishment for all firms was roughly $250,000 but for U.S. controlled establishments in Canadian manufacturing the average capital investment was close to $2,000,000.[3] Companies with capital of over

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[2]Canadian Balance of International Payments, 1955 and 1956, and International Investment Position, D.B.S.

[3]C. D. Blyth and E. B. Carty—"Non-Resident Ownership of Canadian Industry", Canadian Journal of Economics and Political Science, Vol. 22, No. 4, p.460.

$25 million represented 60% of U.S. controlled investment in Canadian manufacturing.

The point of these figures is emphasized by the preliminary report of the Gordon Commission:

> "The influence which foreign-controlled concerns exert in some industries may be greater than the percentages which the amount of foreign capital investment in these industries might imply at first glance. This is because, in Canada, a relatively few large firms tend to predominate in many industries; and the influence which they exert in such industries may be pervasive and compelling. If these few large firms, or a majority of them, are controlled by non-residents of Canada, it may follow that the foreign capital invested in the industry, because of the way in which it is concentrated, in fact dominates or at least influences greatly the operations and the general conduct of the entire industry.
>
> "The more important Canadian industries in which a relatively few companies controlled by non-residents have a dominating influence include the oil and gas industry, some sections of the mining, smelting and refining industry (including, in particular, nickel, iron ore, aluminum and asbestos), some sections of the chemical industry and at least three of the more important secondary manufacturing industries, namely, automobiles, electrical apparatus and supplies, and rubber products. In the pulp and paper industry, ownership and control is more widely diffused. The nine largest companies account for 55% to 60% of the total production of this industry and of these nine, only three are controlled by non-residents. This is only part of the picture, however, because many of the medium-sized companies in the industry are controlled by non-residents. At the beginning of 1954, 55% of the total capital employed in the industry was controlled by non-residents and this percentage may have risen somewhat since then through the purchase of a number of formerly Canadian-owned companies by foreign interests."

However model their managements, the mere existence of 5,000 foreign controlled companies in Canada and the high proportion of growing Canadian industries they control create a problem. Sheer numbers can overwhelm an exhibition, bring its bleachers crashing down and its traffic to a standstill: if the crowd starts rocking and rolling, then a far smaller number is safe. What constitutes a safe crowd depends on its behaviour. The problems of numbers and behaviour are thus closely interconnected.

Present Problems

The scale of foreign investment in Canada is the result of deliberate government policies or lack of policies—the open-door, the advertising of advantages, tax discrimination in favour of the foreigner, low taxation of resources, tariff protection, etc. What the government has given, it can also take away. But should it?

Some have suggested that the Canadian federal government alone is big enough to compete with big business and to think and plan for future Canadians. This is no easy task. Individual Canadians naturally feel cheated if it is suggested that they should not sell out to the biggest bidder for their business—we live, work and have our being in a free competitive world; municipalities are anxious to encourage local investments from whatever source—they all pay taxes equally, whoever their shareholder and president may be; and provincial governments, too, by the mere nature of the democratic process, cannot afford to interfere with present profits for the hope of future dividends.

The difficult decision of the federal government can be compared with the decision facing the board of directors planning an expansion of their business—just on what scale and how fast can they afford to expand when more than half the money for the expansion will have to be borrowed from others, either in bonds or by new equity issues. To what extent is it worth while to expand rapidly today on borrowed money, when we could achieve a smaller and slower expansion from the company's own internal resources? For the sake of speed and bigger scale of operations is it worth while losing our controlling interest in the equity? If we lose our controlling interest and the majority shareholders formed themselves into a shareholders' committee, they could take over control of the company.

There are many advantages to getting on with the job as quickly as possible and on an economic scale which will not require continuous expensive additions. As Dr. Robert Solo succinctly said: "For the national welfare, time is of great importance. Investment made fifteen years hence is not "worth" as much to the community as that same dollar value of investment made this year, just as a thousand dollars receivable this year is worth more than a thousand dollars receivable fifteen years hence by at least the amount of the compound interest on a thousand dollars over fifteen years. In a real sense, as well as a financial one, investment builds upon itself, so that current investment increases, in a cumulative fashion, the power to increase investment and accelerate the rate of economic development over time."[4]

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[4]Dr. Robert Solo, "The Fear of American Investment", The Business Quarterly, XXI, No. 3 Fall, 1956.

But to offset the advantages of advancing today on a broad scale and at a rapid rate on borrowed money, anyone taking a long view of Canada's best interests has to weigh not only the nebulous negative of mortgaging our children's and grandchildren's shares of Canada but also the very present problems created by running so fast that it puts up our temperature — inflation and, secondly, having a large proportion of business owned and controlled outside Canada, more particularly the potential independence of large sectors of the Canadian economy from federal financial, fiscal and commercial policies. This should delight the laissez-faire non-Keynsian economist, but it could lead to anarchy, if the foreign-owned businesses exploited their independence—again the question of their behaviour in Canada.

Financial Independence

As a result of the bigness of the foreign controlled companies in Canada and also of the bigness of their parents, corporate savings are used to finance expansion without any resort to bank loans or to the Canadian capital market. The policy has been to plough back profits rather than pay dividends to the parent. A big oil company and a leading paper concern transferred no dividends to their foreign parents for several years; both Canadian General Electric and Canadian Westinghouse in making offers to buy the shares of minority shareholders wielded the whip by announcing that future dividends were to be cut to increase investment. What else could the Canadian shareholders do but sell out?

By these financial methods and by their ability to draw on the parent's finances, foreign subsidiaries not only keep out Canadian investors. They also grow so big that potential competitors are discouraged. They also make themselves independent of outside sources of capital and credit. They—and big Canadian companies too—have consequently become quite impervious to Canadian government policy exercised through credit controls. They can, and do, continue to expand when the Bank of Canada operating through banking and credit policy is forcing others to restrict their operations to damp down inflation. Foreign-controlled subsidiaries are thus one of the causes of Canada's most serious problem—inflation.

"The existence of a large group of firms with parent sources of financing has effects upon capital markets and the application of monetary and fiscal measures which are different from the effects of Canadian business firms that have no external financial links . . . While Canada has gained immeasurably in speed of industrial development through receiving advanced industrial technology as well as types of capital in which she is deficient, the concerns controlled by non-residents in turn have exceptionally favourable conditions under which to become estab-

lished in security with prospects of continued participation in Canadian growth".[5]

Fiscal Independence

When a subsidiary is not 100% owned by a foreign corporation, its accountants have to be pernickety and painstaking to make sure that the Canadian minority shareholders are not being gypped. There is little wonder that big management has no time for minority shareholders and tries to buy them out: the company can then save expensive accounting costs—and transfer profits from one country to another by varying invoice prices of raw materials, charging high management, engineering and research costs and other devices which earn accountants and lawyers high places on boards of directors. They call it "an integrated global operation".

The days when big foreign subsidiaries could ship raw materials from Canadian operations to foreign plants at prices considerably below market were brought to end, by chance, in 1939 when exchange controls, introduced to prevent the unauthorized export of capital from wartime Canada, for the first time insisted on shipments from subsidiaries in Canada at current market prices. But what is the market price of semi-processed products shipped across the Canadian border, such as nickel or woodpulp in noodle form, when these are exclusive products of the companies transferring them? There are still many loopholes which enable companies to transfer outside Canada their liability to taxation.

Commercial Independence

That great Canadian Sir Wilfred Laurier said years ago, "Canada needs three things, the first is markets, the second is markets and the third is markets". His wisdom was underlined by the Preliminary Report of the Gordon Commission which indicated that the limits to Canada's expansion were not physical but the lack of sufficient markets. This makes the Canadian problem very different from both the British and the American. It is, therefore, disturbing that whole industries in which foreign control is predominant are not allowed an interest in export markets because of the attitude of their parent companies. At this stage it is possible to contrast American and British parents. The British, traditionally interested in foreign markets, seem prepared to allow Canadians an equal interest; not so the Americans. In several cases, the purchase by an American parent of a Canadian firm actively exporting to several markets has brought such exporting to an immediate end.

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[5]C. D. Blyth and E. B. Carty, op. cit.

In virtually all cases of a subsidiary manufacturing in Canada the same product as its parent in the United States, the subsidiary is not allowed to export to the United States in competition with the parent. There are a few exceptions but this certainly is the general rule. The largest market in the world is consequently closed to the leading companies in Canada's leading manufacturing industries. It is hardly surprising that in these circumstances the deficit on trade with the U.S.A. is running at a rate of over $2 billions a year.

This tendency for the majority of foreign subsidiaries in Canada to be excluded from the export market is in direct contrast to the policy of Great Britain where new foreign subsidiaries are obliged, if they need foreign currency to obtain essential parts or raw materials, to export a proportion of their output varying according to the foreign content of their product. Most Canadian subsidiaries import parts and personnel from abroad and thus incur a foreign exchange deficit. They should feel obliged to make at least an equivalent contribution to Canada's foreign exchange resources by aggressive sales in the export market.

The Case for Controls

The theoretical justification for leaving business free from governmental intervention and controls, enunciated by Adam Smith in his "Wealth of Nations", repeated by the classical school of economists through Ricardo, John Stuart Mill, Wicksteed, Marshall, Taussig, Schumpeter, Hayek and culminating in Ludwig von Mises "Human Action" in 1949, is based on the provable fact that prices in a free market, provided there is free competition, are the best possible automatic controllers of supply and demand and the most economic allocators of the factors of production between the infinite possible variety of uses. The essential condition for the law of markets to work naturally for the good of all is, however, the existence of free competition. Hence the efforts by legislation and investigation to prevent monopolies or unfair competition from upsetting the natural law.

Is competition free and equal between Canadian firms and foreign subsidiaries? If so, no harm can arise and the Canadian consumer benefits. Where, however, competition is not fair, where the foreign subsidiary has advantages, possibly of bigness, enabling him to buy out his Canadian competitors and establish a monopoly, where unfair means are being used to damage Canadian competitors, where foreign subsidiaries subject to tight alien control operate contrary to Canada's long-term interests, where barriers in restraint of the natural channels of trade open to the subsidiary are imposed by its parents, where a foreigner is not playing the game according to Canadian rules of good manners and fair play, obviously, there is justification for discrimination in order to equalize the odds, preserve competition and make it fair. In such

conditions government intervention with business, whether Canadian or foreign, is patently admissable.

Ever since the U.S. Supreme Court's decision in June, 1957 against DuPont's holding of General Motors' shares, big business has been defended.[6] The case for smallness and the small guy is seldom heard.[7] Certainly Canadians have long become accustomed to a greater concentration of industry than in either the U.S. or U.K. and can hardly be dismayed to see other countries approaching closer to the Canadian model. Indeed, we can be comforted to be told by such eminent authorities as Dr. Sumner Slichter that in this way, with fewer and bigger businesses, we are assured better and fairer competition. We may, however, be still allowed some scepticism.

"The classical economists, who laid the foundation of the laissez-faire economy, described how monopoly power results in less than the optimum use of resources, with the result that total economic welfare is not as great as can be achieved under conditions of perfect competition. It follows from this that a high degree of concentration may result in less than the maximum possible economic welfare. Secondly, a high degree of industrial concentration implies the existence of a concentration of power within the community which is not susceptible to the normal process of democratic control. This raises questions of social and political morality beyond the scope of economic enquiry."[8]

The possibility that big business practises are monopolistic not only economically but also politically leads to what Prime Minister Diefenbaker at Dartmouth College on 7 September 1957 called: "an intangible sense of disquiet in Canada over the political implications of large-scale and continuing external ownership and control of Canadian industries".

Conclusion

Policies of both individuals and peoples are seldom wise if activated only by fear. We have our Mossadeghs in Canada, but they are fortunately in a minority. We do not plan homes underground in the expectation of the worst. Faith is a better basis for policy. Compare the fantastic growth of a wide-open, free and competitive Canada with much more moderated Mexico. This fear is natural but not logical. Business is international, rather than national. The non-Canadian owners of subsidiaries in Canada are not directed by London or Washington, which more often than not are more worried by their operations than is Ottawa.

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[6]Fortune, July, 1957: Sumner Slichter, N.Y. Times Magazine, Aug. 4, 1957.

[7]Dr. Leopold Kohr, The Business Quarterly Summer 1956 and 1957.

[8]"Industrial Concentration", Commercial Letter, The Canadian Bank of Commerce, No. 4, June, 1957.

The essence of our free competitive western way of life and of our system of laws is that everyone is free and innocent until proven guilty. Although inevitably in 5,000 foreign subsidiaries, there are some bad ones and some that do not know how to behave, the vast majority are actuated by consideration as much for Canada as themselves. The National Planning Association in the United States, an independent, non-political, non-profit organization, combining leaders of agriculture, business, labour and the professions, has published a series of studies of selected cases of U.S. investment abroad. "In the long run, the 'success' of an enterprise abroad must be judged in the light of its relations to the host country. The ultimate success and permanence of the enterprise must necessarily be related to the importance of its contributions insofar as the host country is concerned, since enterprise typical of those we are studying do not exploit host countries, but create wealth which is shared by their citizens. If U.S. private enterprises abroad are managed in such a way that the host countries are convinced they are also promoting their economic and social development, then it is most likely that they will receive the cooperation essential to long-run survival."[9]

The first problem for Canada is, undoubtedly, created by the overall size of foreign subsidiaries in relation to the size of the Canadian economy. It is the fundamental conflict between speed and the scale of advance on the one hand, and continuing control of the equity on the other. Which is the more important, how much of one can safely be sacrificed to the other, requires further detailed study by top-level economists, businessmen and government officials. And also before deciding the case for or against government intervention and measures requiring the loyal backing of provinces and municipalities, we need more facts on the behaviour of the Canadian managements of foreign subsidiaries.

How have foreign subsidiaries behaved in Canada? This introduces the second problem: How foreign controlled subsidiaries should be managed so that Canadians can be "convinced they are also promoting our economic and social development". This problem of the behaviour of foreign subsidiaries in Canada will be tackled in a subsequent article.

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9 I. Sears, Roebuck de Mexico, S.A. May 1953.

II. Casa Grace in Peru, November 1954.

III. The Philippine American Life Insurance Company, March 1955.

IV. The Creole Petroleum Corporation in Venezuela, December 1955.

V. The Firestone Operations in Liberia, December 1956.

VI. Stanvac in Indonesia, May 1957.

CANADA'S NORTHERN TERRITORIES

Hon. Alvin Hamilton

TO review recent economic history is to be particularly impressed by the association of industrial expansion with the discovery and development of Canada's natural resources. No feature of that history is more arresting than the progress founded upon this country's minerals, water-power and other natural wealth. None will question the influence which the continued development of these resources will have upon the pace and diversity of the nation's growth, and thus upon the prospects and programs of Canadian industry. It is in this context that I invite business managers to consider the interest they have in two-fifths of Canada's total area, the Northwest Territories and the Yukon Territory.

It is not by detailing opportunities and problems offered to indidividual industries today that the two territories are best judged for their significance to Canadian business. This is, instead, a question to be examined in a perspective both broader and longer, its answer centering upon the contribution which the north is capable of making to the nation's industrial growth. The reasons for appraising the territories in this way stem, first, from the size of their present economy. Measured in population and production, it is small. The population of the Northwest Territories and Yukon at the 1956 census totalled 31,500, composed almost equally of whites and native peoples—Eskimos and Indians—just one in every 510 Canadians and comparable to the population of Sydney, N.S. or New Westminster, B.C. The territories generate a correspondingly small proportion of the national income; the output of their principal industries in 1956 was valued at $41 millions. Their economy is not widely diversified, and in general the markets they offer are small. Gauging them rather for their prospects than their present is recommended also by the stage at which their development now stands. The northern economy is in transition. Although its course cannot be charted, the outlook for its expansion holds much

promise for even so short a period as the next decade. Above all, however, the significance of the north for Canadian industry lies in its ultimate economic potential and in the impetus which the gradual realization of that potential can give to Canada's forward march. Accordingly, the primary object of this article is to describe the natural resources of the territories and to assess the factors conditioning their development. In more detail, its thesis has been presented in briefs submitted by the Commissioners of the Northwest Territories and the Yukon Territory to the Royal Commission on Canada's Economic Prospects. As this is written, the Gordon Commission's forecast for the two territories in the next twenty-five years has not been made public.

Natural Resources

The principal industries supported by the natural resources of the territories are mining, fur trapping and commercial fisheries. The products of other economic activities—agriculture, horticulture, hunting, reindeer herding, lumbering—go entirely for local consumption. Fur trapping is an industry important chiefly for the income it provides to Indian and Eskimo. The annual value of its catch is subject to wide fluctuations brought on by changes both in world fur prices and in numbers of furs taken. In a recent five-year period income to trappers ranged from $940,000 to $2,400,000, representing at times less than one-third of the purchasing power created by the industry in the period immediately preceding the Second World War. Centered largely in the Northwest Territories, which typically accounts for four-fifths or more of its annual value, fur trapping is capable of little or no expansion since the fur-bearing population is either stationary or declining. The hardship caused the native population in recent years by depressed fur markets, together with the gradual increase in this population, has brought home the need for developing other means of livelihood for Indians and Eskimos.

A commercial fishing industry commenced on Great Slave Lake in 1945 now catches whitefish and lake trout having an annual value of $1.4 millions, marketed chiefly in the United States. The fisheries are unique in that their establishment followed a thorough scientific examination of the resources of the lake by the Fisheries Research Board of Canada. The federal Department of Fisheries from the start has imposed quotas limiting the poundage of the fish taken each year. Carried on mainly by half a dozen companies whose headquarters are in the Prairie Provinces, the fisheries employ several hundred fishermen, many of whom come in from the south for the fishing seasons. While time may prove that the quotas under which it operates might be increased, this industry cannot be expected to take on much more than its present economic importance for the Northwest Territories.

Mineral production is the leading industry in both territories. The value of its output has increased from $3 millions in 1946 to $17 millions in 1950 and then to $29 millions in 1956, these figures excluding pitchblende mined at Port Radium on Great Bear Lake, on which data have been released only recently. Valued at more than $9 millions, pitchblende products in 1956 brought the total value of mineral production in the two territories last year to $38.6 millions. In the Northwest Territories two minerals, pitchblende and gold, together accounted for 94 per cent of mineral production valued at $23 millions. Gold from the Yellowknife area has increased in value each year since 1945, production in 1956 amounting to $12 millions. It now comes from three mines: Giant Yellowknife Gold Mines Limited, the Con Mine of the Consolidated Mining and Smelting Company, and Consolidated Discovery Yellowknife. At Norman Wells the Imperial Oil Company continues to produce petroleum for markets in the Mackenzie District. In the Yukon mineral production has multiplied nine-fold in value in a decade to $15.7 millions in 1956. The principal minerals are gold, silver, lead and zinc. The Klondike area yielded most of the $2.5 millions of gold recovered in 1956, a typical year for this industry. Since 1948 the chief centre of the territory's mining industry has been the Mayo district in central Yukon, the source of the silver, lead, zinc and cadmium which together accounted for $13 millions of 1956 production, most of it from the property of United Keno Hill Mines Limited.

The north's mineral industry thus is still relatively small. Its production in 1956 represented less than two per cent by value of the Canadian total, then more than two billion dollars. What is far more significant, however, is the potential for its expansion represented by the territories' mineral wealth. The paramount fact about the northern economy is that its progress will rest largely with the development of mineral resources. How, then, are the potential and the prospects of the mineral industry to be assessed? Related to both the dimensions and the pace of the industry's growth this question must look first for answer in the economist's determinants, demand and supply.

Prospect for Minerals

How quickly the minerals of the northern territories will come into demand in future is a question turning essentially upon the course of world demand for these resources. The governing factors are the markets in other countries. An important mineral producer, Canada ranks higher still as an exporter; for years it has been the world's leading exporter of base metals. Of its production of selected minerals in 1955 foreign markets bought: lead, 72 per cent; asbestos and zinc, 95 per cent; copper, 53 per cent; and nickel, 99 per cent. Recently Canada has supplied nearly two-thirds of the world's asbestos and four-fifths of the free world's requirements of nickel. The rate at which inter-

national consumption of minerals has been increasing is striking. It may be illustrated by reference to the United States, by all odds the largest consumer and Canada's chief market. As brought out by the Paley Report, between 1925 and 1950 that country's consumption of lead and zinc rose by roughly one-half, and of copper by 100 per cent. Largely in response to external demand Canadian production of nickel has almost doubled in a decade, and output of iron ore multiplied about ten-fold. Every evidence points to a continued long-term upward trend in the market for Canadian minerals. The world's population is increasing by 43,000,000 people annually and may well double by the end of this century. Per capita consumption of minerals will rise further as industrialization proceeds and as the economies of underdeveloped countries expand. Each year finds minerals put to new uses. In this growth in demand lies much of the explanation for the high level of mineral exploration across Canada and for the opening up of areas not long ago only wilderness. Projects once considered visionary or uneconomic have become realities; witness the development at Knob Lake, which by 1956 had become the source of 60 per cent of the nation's iron ore production.

A study prepared for the Royal Commission on Canada's Economic Prospects estimates that in total volume the metals and industrial minerals produced in Canada may rise by 1980 to three and one half times recent levels, or perhaps more. Exports may be four times as large if the United States market is not restricted and if purchases by overseas countries are not limited appreciably by exchange difficulties. There will, as the Gordon Commission points out, be wide variations in the rate of increased world demand for each of the different metals and in the proportion of the demand which may be met by Canadian sources of supply. Twenty-five years from now, for example, the output of lead and zinc could be two to four times as large as it was in 1955.

Canada's North as a Source of Supply

In this context, how are the Northwest Territories and Yukon to be assessed as a source of Canadian mineral production in the years ahead?

To review this question we may look first at the promise the territories hold out for mineral wealth. The dominant geological features of these 1,500,000 square miles are precisely those which have already made southern Canada one of the world's leading producers of metals and other minerals. The territories lie largely in the supreme metal-bearing regions of the North American continent, the Precambrian Shield and the Cordilleras, while in part the Northwest Territories represent the northern extremity of the Central Plains, the continent's great oil-bearing region. By virtue of its geological structure the northland stands out as one of the great mineral areas of the world.

The first step toward the development of these resources is to have them assessed. This is a function being performed by two main agencies, the Geological Survey of Canada and second, prospectors and mining companies. In the Northwest Territories the Geological Survey has now surveyed and prepared geological maps for two-thirds of the mainland and for one-fifth of the Arctic islands. Similarly, one in every three of the Yukon's 207,000 square miles has been covered by geological mapping. The value of these maps is that they permit both reasonable appraisal of mineral resources and knowledgeable planning of future geological work. They have lately been compiled more quickly than ever before, the result of the introduction of surveys by helicopter, which accomplish in a season work otherwise requiring years. While this assessment has proceeded a start has been made on more detailed exploration by prospectors and mining companies. It was not until after the Second World War that general prospecting with adequate capital developed. In recent years exploration taking place in both territories has reached an intensity unprecedented in their history, and has been reflected in record numbers of claims staked. Unlike an earlier era's this activity is not directed alone to the discovery of precious metals or especially rich ore bodies. Instead, it is often seeking out deposits, of whatever kind, which offer prospects of commercial development either immediately or in future. The search has engaged some of the largest and most progressive companies in the Canadian mining industry. It has swung as far north as the Arctic islands. At present much of it is focused on the territories as a source of base metals.

The results of this exploration show, first, in the opening this year of two new mines in the Northwest Territories. In the Marian River area 100 miles northwest of Yellowknife, Rayrock Mines Limited has commenced operations as the territory's second producer of uranium products. On the west coast of Hudson Bay, North Rankin Nickel Mines Ltd. is mining high-grade nickel-copper ore, marking the first time that mineral production in the territory has extended beyond the Mackenzie District. When this article appears the Marian River area will have become the site of a second uranium mine. Preparations also have begun on bringing a new gold mine into production 150 miles northeast of Yellowknife, perhaps by 1960. Then there is the lengthening list of promising prospects.

The property having the largest potential is the great lead-zinc deposit located at Pine Point on the south shore of Great Slave Lake. Explored for some years now by a subsidiary of the Consolidated Mining and Smelting Company, this could become the site of one of the largest lead-zinc mines in North America. On the Belcher Islands in Hudson Bay large tonnages of iron ore readily susceptible to concentration have been developed and a large copper deposit discovered. Recent investigation has found on the south shore of Baffin Island an

iron ore deposit whose potential, already estimated at 400 million tons, may ultimately prove to be far greater. A wide area about Great Slave Lake is being prospected extensively for copper, lead and zinc. Of particular interest are two mineral reservations, held by important mining companies, covering large areas south of the Arctic coast. These are the Coppermine River Reservation, 600 square miles in extent, lying along the Coppermine River, and the James River Reservation, 620 square miles, south of Grays Bay on Coronation Gulf. A beginning has been made on the intensive exploration of these areas. The Coppermine River Reservation is believed to contain copper and nickel, and the James River Reservation copper, zinc and nickel. Elsewhere in the same general region many claims have recently been staked. In the Yukon the marked attention which the Whitehorse area has received has led to the discovery of interesting base metal deposits, notably of lead-zinc, nickel and copper. Farther north, near Dawson, a promising showing of asbestos has been found.

It is not only for metals that the territories are being explored. Encouraged by recent history in the Prairies Provinces the search for oil has struck northward into the Mackenzie valley and eastern Yukon, regions with geological structures favouring the presence of that mineral. At the end of July 1957 the area covered by oil exploration permits totalled almost 45,000 square miles, not far short of the combined area of Nova Scotia and New Brunswick. A further 9,600 square miles is included in what are known as the Eagle Plain and Peel Plateau reservations, located astride the Arctic Circle. Expenditures on oil exploration in recent years have totalled several million dollars annually. The Eagle Plain reservation appears to offer more than ordinary promise, and the company exploring it is now sinking a well.

Costs Are Not Always High

The progressive assessment of their natural resources is a principal key to the territories' economic expansion. It is a process as yet hardly begun, and inevitably one that will take many years, since at present there is not one area whose wealth is intimately known. Sparse though our knowledge be, it gives reason for thinking that in parts of the Yukon, for example, the concentration of minerals is unusually heavy and their variety unusually wide. The search for these resources is encouraged by the fact that while mining costs usually run higher than in more southerly parts of Canada, mines opened in the territories are not necessarily high-cost or marginal operations unduly sensitive to shifting economic winds. Thus Pine Point, owing to the grade and extent of its ore deposit, could become one of the world's lowest-cost lead-zinc mines. Moreover, for some parts of the territories relative costs already have been declining as economic development has proceeded, and will continue to do so.

Taken together, rising world demand and the mineral resources they contain suggest that the Northwest Territories and Yukon over the next quarter century may well experience an economic expansion important not only to them but to Canada as a whole. Even a relatively small number of new mining properties could add substantially to their significance as a mineral producer. There are other resources awaiting development. One of these is water-power, which already has been harnessed to serve mining operations at Yellowknife, Mayo and Dawson. In the headwaters of the Yukon River and certain of its tributaries is contained the potential for the ultimate production of roughly 4,500,000 horsepower of electrical energy, or nearly one-quarter of the hydro-electric capacity now developed in all of Canada. Standing forests in southern Mackenzie District and southeast Yukon, as yet largely inaccessible, are extensive enough to indicate the likelihood of a lumbering industry once the territorial economy has expanded. Whatever growth of manufacturing industries the territories may witness in future will be largely associated with mining developments. The establishment of local manufacturers and service industries will depend largely on general economic progress.

It is not to be expected that the territories will become the centre of a great population, particularly since large mining operations usually offer relatively little employment. Between 1931 and 1951, however, the white population rose from 3,600 to 12,850 as the territorial economy grew, with the increase concentrated largely in the Mackenzie District and the Yukon. Today there are two towns, Yellowknife and Whitehorse, having a population of more than 2,500.

Transportation, Climate and Government

Gauging the north as a source of mineral wealth requires that its resources be examined not only for their potential but also for their accessibility. This has varied markedly by area, has dictated in the past that economic development should come first in the Mackenzie District and the Yukon, and points to these areas and certain coastal regions as the principal sites of expansion in the foreseeable future. The question accessibility introduces turns on transportation. It is transportation which stands with the progressive assessment of mineral wealth as a basic determinant of the territories' economic progress. The problem it presents is two-fold, involving both the adequacy of transport facilities and the level of transport costs. The availability of surface transportation, essential for the development of natural resources, is also an important influence upon the intensity with which they are explored.

Access to these resources is wider today than is commonly supposed. The traditional channel of commerce in the territories, water transportation remains of first importance for the Mackenzie District, which it

serves from railhead at Waterways, Alberta, to the Arctic coast by means of the Mackenzie River system. Its disadvantages are that it is slow and confined to a short season—thereby involving the costly storage of large inventories—and that its capability for promoting and serving economic expansion is limited. Increasingly in recent years carriage by water has been supplemented, and in some areas replaced, by highway transportation. The economies of both the Northwest Territories and the Yukon have gained substantial stimulus from highways financed largely by the federal government. Since 1948 the 385-mile Mackenzie Highway extending from the Peace River district to Great Slave Lake has encouraged the commercial fisheries to expand, has reduced certain transport costs and has become a significant adjunct to water transportation in the Mackenzie District. Even more recently the Yukon has had the Yukon River system entirely superseded by highways, principally the 254-mile Whitehorse-Mayo road and a connecting road to Dawson, both built by the federal government, and the wartime Alaska Highway. The Yukon also has the only railroad in the two territories, a line running 110 miles from Skagway, Alaska, to Whitehorse. It likewise enjoys the great advantage of being close to tidewater.

The stimulus which highways offer to territorial development comes from their provision of transportation either year-round or interrupted at most for several weeks in the spring, from their encouragement of mineral exploration, and from their adaptability as means of access to proved resources. In its continued recognition of their importance the federal government is building a 270-mile highway from the Mackenzie Highway to Yellowknife, to be open to traffic in 1959, and has recently broadened the scope of the financial assistance it is ready to extend to the two territorial governments in the construction of resource development roads.

No other means of transportation can encourage the development of remote regions so quickly as railroads. For the economy of the whole Mackenzie District, therefore, no prospect is more exciting than that rail connections may before long be extended to the south shore of Great Slave Lake. Now being studied for its feasibility, a railroad providing these connections would have many benefits to confer, including lower transport costs, ability to handle large freight movements, and added significance given to supplementary modes of transportation. The importance of reducing transport costs is measured by the burden these costs represent for the territorial economy, so distant from many markets and sources of supply.

The economic significance of the northern climate, which differs greatly by region, has several facets. In part by its dictates resources of workable agricultural and forested lands are relatively limited. Its impact on the mining industry is naturally of special interest. Climate adds to this industry's costs in several ways, limiting the season and

increasing the cost of certain types of construction and adding to heating costs and to wage bills. Climate is not, however, a serious physical problem for mining development.

Since the federal government owns and administers most of the territories' natural resources it has a special responsibility for northern development. Its contribution to the expansion of the territorial economy has taken many forms. In addition to highways it has provided transportation facilities in the shape of airports, docks, and the like. To assist the mining industry it has constructed water-power plants and established mining regulations designed to attract the participation of large and responsible mining companies. Its conception of its role in promoting economic development has grown and its activities increased. Its partnership with private enterprise in the north has become still closer.

Canada's northern territories look to a future of great promise. If they cannot count large in the programs and planning of most business management today, the course of their economy in the years ahead will assuredly deserve watching. Our recent history has illustrated how quickly areas once remote can gain in economic importance. Although their future cannot be charted, the Northwest Territories and the Yukon must eventually occupy a large place in the national economy. That fact, with all its implications, holds profound significance. It is that fact which management, along with other Canadians, should know.

U. S. Overseas Investment and Production

"In 1914, U.S. direct investments abroad are reported by the Department of Commerce to have been 2.7 billion dollars. In 1929, they approximated 7.5 billion dollars.

"By the end of 1957, U.S. investments overseas are likely to be 32 billion dollars, producing profits at the rate of about 4 billion dollars annually. It has been estimated that American-owned subsidiaries and branches abroad are manufacturing close to 40 billion dollars worth of goods in 1957. This is three times the value of manufactured goods exported from the United States last year. In the case of our own company, the ratio of production abroad to exports from the U.S. will be five to one in 1957.

"This is one of the vital new dimensions in American overseas operations—investment and production abroad as the principal means of penetrating foreign markets rather than by traditional export sales programs.

"Competition encountered today is more likely to come from American-owned or American-sponsored overseas production than from American exports."

—Keynote address at I.M.A. 1957 Conference on Foreign Operations by Harvey Williams, President, Philco International Corp.

SALESMEN'S COMPENSATION in Canada

Donald H. Thain

Today the sales manager's job is changing — it is getting bigger, more complex, and tougher than ever before. Because of this situation, sales managers currently are wrestling with many increasingly important problems, one of the most significant of which continues to be the compensation of outside salesmen. As a result, they understandably are looking for information on many of the perennial questions in regard to salesmen's compensation. Do we have the right compensation plan? Do our salesmen have enough security? Do they need more incentive? Do we pay enough? Do we pay too much? Is our treatment of expenses right? Should we give additional fringe benefits? These are just a few of the perplexing questions in this area.

In response to repeated requests from sales managers for information that would help answer such questions, Dean F. W. P. Jones and Dr. Thain[1] *undertook a survey of Canadian firms in regard to salesmen's compensation, sales force size, sales volume, salesmen's expenses, fringe benefits, and car ownership plans. This report presents a summary of the data from the questionnaire returns and conclusions and observations based upon the information supplied by the participating companies.*

[1]The writer also wishes to acknowledge the help of Miss Frances E. Oxley and Messrs Donald A. Noble and William L. Wood, of Western's School of Business Administration, in drawing up the questionnaire and tabulating the returns.

THE highlights from the findings of this survey are that there is a trend away from the salary payment plans to salary and commission or bonus; the current prosperity of the economy as a whole is being reflected in both total company and individual salesmen's sales volume and salesmen's total compensation, all of which are typically at their highest levels ever and rising steadily; most companies are expanding both their sales forces and areas of sales coverage; and there is a great deal of conformity in the payment of salesmen's expenses and fringe benefits.

The Survey Sample

Probably of first concern to the reader who is interested in assessing the accuracy of the data presented is information about the survey sample and method. After a preliminary pilot run test, a final questionnaire was drawn up and mailed to about 460 Canadian companies of whom 156 (34 percent) replied.

EXHIBIT 1

CLASSIFICATION OF QUESTIONNAIRE REPLIES BY TYPE OF COMPANY

Question: To aid us in classifying data please check category into which your company falls.

Manufacturer ....
Wholesaler ....
Manufacturer & Distributor ....
Other (Explain) ....

	TOTAL Number	Percent	*Capital Goods*	*Consumer Durable Goods*	*Consumer Non-Durable Goods*
Manufacturer	83	53	33	29	21
Manufacturer and Wholesaler	63	40	25	14	24
Wholesaler	8	5	3	3	2
Other	2	2	1	—	1
Total	156	100	62	46	48
Percent	100%		40%	29%	31%

A breakdown of the replies by type of company (see Exhibit 1) indicates that 53 percent of replies came from manufacturers, 40 percent from manufacturers and distributors, and the remaining 7 percent from wholesalers and others. In total, 93 percent of the companies in the sample were manufacturers with nearly half of these also doubling as distributors.

Another classification of reply, by type of goods sold, reveals that the largest single group (40 percent) of the companies that replied were manufacturers of capital or industrial goods. The remaining 60 percent was split almost evenly between manufacturers of consumer

durables and consumer non-durables. Consumer durable goods include, of course, such items as appliances, cars, and furniture, to name a few, while consumer non-durable goods include food, clothing, and many others.

The study, of course, was conducted on the basis of a sample. The sample actually used was undoubtedly not representative of Canadian business as a whole. For example, our original mailing list was definitely biased in favour of manufacturers, and in favour of *large* manufacturers at that. Then the problem of drawing a representative sample was further complicated by the fact that we used a mail questionnaire, and had to rely on the cooperation of firms to obtain completed questionnaires. The difficulties in designing a systematic, unbiased sample of Canadian firms were such that we felt the prospective results did not warrant taking the necessary time and trouble.

This does not mean that the study, and the results obtained, are not perfectly valid and of considerable use, representing as they do the reported methods of some 156 Canadian firms. However, the reader should not accept the findings as representing Canadian business in general, just as he should not reject the study's findings because of sample deficiencies.

Compensation Plans

The breakdown of types of compensation plans reported for 1951 and 1956 (see Exhibit 2) reveals a decided swing away from straight salary and straight commission plans to those combining salary and commission or bonus.

In 1951, the majority of companies (37 percent) paid straight salary. Salary and commission (21 percent) and salary and bonus (19 percent) were fairly close together as second and third respectively in popularity. Straight commission (13 percent) was fourth and several other plans were of minor importance. Together straight salary and straight commission plans accounted for 50 percent of all companies in 1951.

In 1956, however, salary and commission (31 percent) had displaced salary (25 percent) as the most popular plan. Salary and bonus (24 percent) was a close third and straight commission (10 percent) was fourth. Together straight salary and straight commission plans had fallen from 50 percent to 35 percent of all companies and the combination of salary and commission or bonus had risen from 40 to 55 percent of total.

Analysis of shifts in type of compensation plans used by type of industry shows some deviation from the general trend. The majority of capital goods companies still paid salaries in 1956. In consumer

EXHIBIT 2

TYPES OF COMPENSATION PLANS REPORTED

Question: How were your salesmen paid?

1. Salary ....
2. Salary plus commission ....
3. Straight commission ....
4. Salary plus bonus ....
5. Salary plus profit sharing ....
6. Commission plus bonus ....
7. Commission plus profit sharing ....
8. Other (explain) ....

	TOTAL		*Capital Goods*		*Consumer Durable Goods*		*Consumer Non-Durable Goods*	
	1956	1951	1956	1951	1956	1951	1956	1951
	%	%	%	%	%	%	%	%
1. Salary	25	37	36	47	15	23	22	41
2. Salary plus commission....	31	21	30	16	32	27	30	24
3. Salary and bonus	24	19	13	12	23	19	39	28
4. Straight commission	10	13	12	17	10	15	7	7
5. More than one plan........	4	3	—	—	12	10	—	—
6. Salary and profit sharing	2	1	5	1	—	—	—	—
7. Salary, bonus and profit sharing	a	—	1	—	—	—	—	—
8. Salary, commission and profit sharing	a	1	1	1	—	—	—	—
9. Salary, commission and bonus	a	1	1	1	—	—	—	—
10. No answer	4	4	1	5	8	6	2	—
TOTAL	100	100	100	100	100	100	100	100

(a) Less than 1%.

durables, salary and commission was the most popular plan both in 1951 and in 1956. In consumer non-durables the most important shift was toward salary and bonus which, in 1956, was the most popular type of compensation plan in companies of this classification.

It is interesting to note that the greatest variety of plans is found in the capital goods field. Profit sharing, a widely publicized element in sales compensation plans, is apparently of significance only in a few capital goods companies.

A total of 42 companies (27 percent) changed their types of compensation plans in the 5 year period. Ten changed form salary to salary and commission; nine from salary to salary and bonus; four from salary and bonus to salary and commission; three from straight commission to salary and commission; the remaining eighteen made a variety of changes primarily de-emphasizing salary in favour of incentive pay in the form of commissions or bonuses. Of prime importance in the majority of changes was increasing the incentive aspect of the compensation plan.

EXHIBIT 3

AVERAGE (ARITHMETIC MEAN) ANNUAL COMPENSATION

Question: *What was the compensation range of your sales force? Include only those men who have worked a minimum of one full year.

	1956	1951
Highest Salary	....	....
Lowest Salary	....	....
Average Salary	....	....

	Total		*Capital Goods*		*Consumer Durable Goods*		*Consumer Non-Durable Goods*	
	1956	*1951*	*1956*	*1951*	*1956*	*1951*	*1956*	*1951*
Highest Compensation	$9,600	$7,400	10,900	8,300	10,030	8,150	7,360	5,570
Range	4,000-32,000	3,500-25,500	5,000-32,000	3,500-25,500	4,000-24,000	3,500-20,000	4,000-13,000	3,500-10,500
Percent increase 1956 over 1951			35%		23%		32%	
Average Compensation	5,590	4,688	6,400	5,100	6,450	5,300	5,000	3,500
Range	2,000-15,000	2,000-14,000	2,500-12,500	2,000-11,000	2,000- 1,500	3,500-14,000	3,000- 8,000	2,500- 8,000
Percent increase 1956 over 1951			35%		26%		25%	
Lowest Compensation	4,250	3,300	4,500	3,500	4,450	3,400	3,760	3,000
Range	2,000- 7,500	1,500- 6,500	2,000- 6,500	2,000- 6,000	3,000- 7,500	2,000- 6,500	2,000- 6,000	1,500- 5,500
Percent increase 1956 over 1951			32%		31%		32%	
Overall average increase 1956 over 1951	30		32		26		32	

*Unfortunately in the final draft of the questionnaire the word "salary" was not changed to "compensation" to agree with the wording in the first part of the question. Although we believe most respondents stated total compensation figures there was some confusion involved. Therefore, the figures in this table are probably on the low side.

Many different reasons for the changes in compensation plans were stated. Among the companies that increased the incentive part of their plan, the most common reason was "to make salesmen want to sell more". Other reasons for increasing the incentive portion of a pay plan were to give greater earnings without increased fixed charges, to attract better salesmen, and better to correlate remuneration with sales and expenditure of time and effort.

The companies that increased the security aspect of their payment plan did so in order to increase the "salesman's sense of security", to make it possible to put "good men in poor territories", and "to force men to take the long run view of markets".

Average Annual Compensation

The most notable fact in regard to average annual total compensation (the total of all types of pay) is that it has increased by about 30 percent from 1951 to 1956 (see Exhibit 3). As a result, in 1956 the typical salesman's total earnings were higher than ever before. The capital and consumer non-durable goods company classifications, with increases of 32 percent over the five year period, showed the most rapid advances.

In 1956 consumer durables salesmen earned the highest average pay, $6,450; capital goods salesmen were second with $6,400; and consumer non-durables salesmen were lowest with $5,000. In 1956 the pay for full time salesmen ranged from $2,000 to $32,000 in capital goods, $3,000 to $24,000 in consumer durable goods and $2,000 to $13,000 in consumer non-durable goods.

It is noteworthy that the better salesmen in consumer durable and capital goods companies apparently earn more than those in consumer non-durable companies. The pay for poorer salesmen averages out about the same regardless of the type of company involved.

Salesmen's Average Annual Volume

The average volume of sales by individual salesmen has shown a definite upward swing. The most apparent upward shift is in the large number of salesmen who have passed from the 0-$99,999 bracket to the $100,000-$499,999 bracket. The biggest drop in percentage of the total came in the lowest bracket (0-$99,999), which accounted for 28 percent of salesmen in 1951 but only 14 percent in 1956 (see Exhibit 4).

In both 1951 and 1956 the majority of salesmen were in the $100,000-$499,999 bracket. However, the percentage of men in this range increased from 47 to 58 percent over that period. The percentage of men in the $500,000-$999,999 bracket also increased—jumping from 6 to 11

EXHIBIT 4

AVERAGE SALESMAN'S ANNUAL VOLUME

Question: What was the average salesman's annual volume of sales? Note: Include only those men who have been selling for at least one full year.

	1956	1951
$ 0 - $ 99,999	....	....
100,000 - 149,999	....	....
150,000 - 199,999	....	....
200,000 - over	....	....

	TOTAL		*Capital Goods*		*Consumer Durable Goods*		*Consumer Non-Durable Goods*	
	1956	1951	1956	1951	1956	1951	1956	1951
	%	%	%	%	%	%	%	%
A) 0 - 99,999	14	28	16	30	13	28	13	26
B) 100,000 - 499,999	58	47	52	40	57	50	65	52
C) 500,000 - 999,999	11	6	13	6	13	4	7	7
D) 1,000,000 up	6	6	11	11	4	6	2	—
E) No answer	11	3	8	13	13	12	13	15
	100	100	100	100	100	100	100	100

percent. There was no apparent change in the group of salesmen who sold over $1,000,000 in volume.

With manufacturers, wholesalers, and consumer prices rising during the period, it is not surprising that the most commonly cited reason for increased volume was price increases. Other reasons for volume increases, in order of importance, were the addition of new products to a company's line, market growth, product improvement, more effective selling, more aggressive selling, better advertising, and more effective sales training.

Size of Sales Force

The average size of sales force increased from 33 to 44 salesmen or by 33 percent over the five year period (see Exhibit 5). In total, the size of salesforce increased in 84 percent of companies, remained the same in 10 percent, and decreased in 6 percent.

In both 1951 and 1956 consumer durable goods manufacturers had the largest average size of sales force. In 1951 these companies employed 44 men on the average; this number was increased to 57 in 1956. Second in size were the producers of capital goods with an average sales force of 29 men in 1951 and 41 men in 1956. Consumer durables companies had somewhat smaller sales groups with an average of 28 salesmen in 1951 and 36 salesmen in 1956.

EXHIBIT 5

SIZE OF SALESFORCE

Question: Approximately, how many men comprised your salesforce?

1956...................... 1951......................

	TOTAL		*Capital Goods*		*Consumer Durable Goods*		*Consumer Non-Durable Goods*	
	1956	1951	1956	1951	1956	1951	1956	1951
Average size of salesforce....	44	33	41	29	36	28	57	44
Percent increase in size of salesforce 1956 over 1951	35%		41%		29%		30%	
Breakdown by Company	%		%		%		%	
Sales forces increased	84		90		82		78	
Sales forces decreased	6		5		6		9	
No change in size	6		5		4		9	
Did not answer question......	4		—		8		4	
TOTALS	100		100		100		100	

There is a decided contrast in the percentage increase in the average size of salesforce of the three different company classifications. Although capital goods companies stood only second in size of their sales forces, they showed the largest percentage increase in size (41 percent). Consumer non-durable companies with the largest sales forces, increased their size by an average of 30 percent, while the group with the smallest sales forces, manufacturers of consumer durables, increased the number of salesmen by the smallest amount or 29 percent.

By far the most important reasons stated for increase of size of sales forces was growth in the size of markets. Other frequently mentioned reasons were, in order of importance, the addition of new products, requirement of additional personal selling, changes in channels of distribution, company growth, geographical expansion of markets, and increased competition.

Area of Coverage

About 36 percent of the responding companies reported expansion of sales coverage during the five year period. The chief area of expansion was Newfoundland. Next in importance were the Maritimes, Prairies, and West Coast. There was almost no expansion in Ontario or Quebec undoubtedly because these two provinces are more thoroughly covered by more companies than any other provinces in Canada.

As a result of the trend to increased geographical coverage the percentage of companies selling in the total Canadian market rose from 43 percent in 1951 to 62 percent in 1956.

The most important reasons for expanding sales coverage were to increase volume, to expand markets, find new outlets for new products, increase share of total market, replace agents, distributors and other middlemen in order to achieve more aggressive and better controlled sales effort, and to provide new territories for salesmen.

Salesmen's Expenses

The companies studied showed a great deal of conformity in regard to the expenses that they paid. About nine out of ten companies paid salesmen's four largest expenses namely travel, lodging, meals, and telephone and telegraph (see Exhibit 6). The majority of companies, 77 percent, also paid entertainment expenses. Most of the companies indicating that they paid entertainment expenses stated that such payments were limited in amount and restricted in nature. About 9 percent of the companies paid a special car allowance to cover depreciation. Very few companies paid club dues (3 percent), a flat daily expense account (2 percent), and convention or moving expenses (1 percent).

Overall, there was little change in the number of companies paying and the types of expenses paid over the five year period.

Fringe Benefits

The outstanding development evidenced in regard to fringe benefits was that all groups show important increases in nearly all benefits.

EXHIBIT 6

SALESMEN'S EXPENSES

Question: What type of expenses did your company pay for the salesman?

	1956	1951
1. Lodging	....	....
2. Meals	....	....
3. Entertainment	....	....
4. Telephone and Telegraph	....	....
5. Travel	....	....
6. Other (explain)	....	....

	TOTAL		*Capital Goods*		*Consumer Durable Goods*		*Consumer Non-Durable Goods*	
	1956	1951	1956	1951	1956	1951	1956	1951
	%	%	%	%	%	%	%	%
Percentage of Companies Paying:								
Lodging	89	88	87	90	86	85	93	91
Meals	89	88	87	90	86	85	93	91
Entertainment	77	77	82	87	79	78	64	65
Telephone and Telegraph	89	88	86	90	88	88	92	89
Travel	89	89	90	93	86	88	90	87
Car allowance, depreciation	9	9	6	6	6	6	17	16
No expenses	6	5	6	2	8	8	2	2
Flat daily expense allowance	2	2	2	3	2	2	2	2
Club dues	3	1	6	2	—	—	—	—
Convention expenses	1	1	2	2	—	—	—	—
Moving expenses	1	1	2	2	—	—	—	—

The two most widely provided benefits are life insurance and hospital insurance. The percentage of companies providing these benefits rose from 90 to 94 percent and 87 to 94 percent respectively from 1951 to 1956 (see Exhibit 7).

EXHIBIT 7

FRINGE BENEFITS

Question: What fringe benefits do your salesmen enjoy?

	1956	1951
1. Pension plan	....	....
2. Hospital insurance	....	....
3. Life insurance	....	....
4. Sickness and accident insurance	....	....
5. Savings and stock purchase plans	....	....
6. Recreational facilities	....	....
7. Others (please explain)	....	....

	TOTAL		*Capital Goods*		*Consumer Durable Goods*		*Consumer Non-Durable Goods*	
	1956	1951	1956	1951	1956	1951	1956	1951
	%	%	%	%	%	%	%	%
Percentage of Companies Providing:								
Pension plan	88	75	92	79	90	75	83	74
Hospital insurance	94	87	94	93	95	75	96	91
Life insurance	94	90	92	90	95	90	94	91
Sickness & accident insurance	70	61	62	59	60	44	88	80
Savings or stock purchase plans	12	15	18	14	22	15	16	9
Recreational facilities	4	4	10	9	1	1	—	—

The largest increases in types of benefits added were in pension plans and sickness and accident insurance. The number of companies providing a pension plan increased by 13 percentage points, from 75 to 88 percent, and those providing sickness and accident insurance rose 9 percentage points from 61 percent to 70 percent.

Few companies provide savings or stock purchase plans (12 percent) or recreational facilities (4 percent). The number of companies providing the former actually dropped 3 percent from 15 to 12 percent in 1951.

The most obvious deviation from normal appears in the consumer non-durable group. A considerably lower percentage of companies in this category provide pension plans but on the other hand they are much more generous in the provision of sickness and accident insurance.

Car Plans

In most companies reporting, the salesman owned his own car. This was true in both 1951 and 1956 (see Exhibit 8). However, the per-

centage of companies with salesman car ownership plans dropped noticeably from 60 to 47 percent.

EXHIBIT 8

SALESMAN'S CAR OWNERSHIP

Question: Who owned the salesman's car?

The company	....	....
The salesman	....	....
Rental agency	....	....

(Percent of Companies Using)

	TOTAL		*Capital Goods*		*Consumer Durable Goods*		*Consumer Non-Durable Goods*	
	1956	1951	1956	1951	1956	1951	1956	1951
	%	%	%	%	%	%	%	%
Ownership Plan:								
Salesman ownership	47	60	47	57	58	67	45	58
Company ownership	33	35	38	37	29	31	31	36
Rental agency ownership	9	1	7	2	2	—	18	—
More than one ownership plan	9	5	8	5	11	2	6	6

Plans whereby the salesman's car was owned by the company ranked second in popularity in both years, but dropped slightly from 35 percent in 1947 to 33 percent in 1956. Rental agency ownership plans, which were practically non-existent in 1951, had become much more important, increasing to 9 percent of companies in 1956. The reason for the swing from salesman and company ownership plans to rental agency ownership plans was to relieve the salesman and companies from the large capital investment required for a car or a fleet of cars.

There was also an increase in the number of companies who offered salesmen more than one alternative in regard to car ownership plans.

Summary, Conclusions, and Recommendations

The most obvious observations that emerge from the results of this survey may be summarized as follows:

1. There is a trend in current changes of salesman's compensation plans away from straight salary or straight commission to salary and commission or bonus plans. In 1951 salary was the most popular type of compensation program. In 1956 salary had been superseded in frequency with salary and commission taking the lead. Salary and bonus ranked third in popularity.

2. In 1956 the most common type of compensation plan in the capital goods group was salary: in the consumer durables class it was salary plus commission, and among consumer non-durable companies it was salary plus bonus.

3. About 27 percent of companies studied changed their type of compensation plan between 1951 and 1956. The purpose of over half of the changes was to increase the incentive aspect of the plan.
4. The typical salesman's earnings are at the highest peak ever. The sharp increase (30 percent) in average annual compensation over the last five years correlates closely with increases in sales volume.
5. In 1956 salesmen's pay was highest in the consumer durables group, second highest in the capital goods category and lowest in consumer non-durable companies.
6. In all classes of companies the average annual volume of salesmen increased substantially. The average company currently enjoys higher sales volume than ever before.
7. The chief reasons for the increases in total sales volume were price increases, market growth, introduction of new products, and products improvement.
8. Sales force size increased by about one-third on the average over the period.
9. The most important reasons for the large increases in sales force size were expansion of markets, need for additional "push", and the addition of new products.
10. About 36 percent of companies reported expansion of sales coverage: the most frequently mentioned area of expansion was Newfoundland.
11. Companies showed great conformity in the treatment of expenses, most paying travel, lodging, meals, telephone, and telegraph.
12. There was also a great deal of conformity with regard to fringe benefits provided. Nearly all companies paid life and hospital insurance. Most provided pensions and sickness and accident insurance.
13. In both 1951 and 1956 salesman car ownership plans were most popular. There was, however, a decided swing away from salesman and company ownership plans to rental agency ownerships.

Comparison of Canadian and U.S. Trends

Since a comparison of Canadian and U.S. trends in sales compensation may be of interest to readers, a brief comment on U.S. trends as revealed by several recent U.S. surveys of salesmen's compensation[2] is appropriate.

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[2]See for example, Tosdal, Harry R., *Salesman's Compensation*, Vols. 1 & 2, Boston, Harvard Business School Division of Research, 1953.
The Dartnell Corporation, *Report on Sales Compensation*, Chicago, 1956, or *Report on Salesman's Compensation* by the National Sales Executive Club of New York.

As in Canada, the earnings of travelling salesmen are at an all time high. Moreover, the continual round of increases in earnings shows little sign of letting up.

There is reportedly wide-spread dissatisfaction with pay plans and as a result much re-thinking is being done and many changes are being made. The trend is definitely away from salary to salary and commission plans. Therefore, as in this country, American sales managers are increasing the proportion of incentive payment in salesmen's compensation.

The trend away from company car ownership plans to car rental plans is more pronounced in the U.S. than in Canada.

The treatment of fringe benefits is apparently much the same in both Canada and the U.S.

Re-appraisal of Personal Selling Necessary

Perhaps the most striking, single finding of this survey was that the costs of personal selling are high and rising sharply. At present, our economy, as judged by gross national product and industrial production figures, is growing rapidly. Sales volumes for many products are the highest ever. We are also in a period of inflation. Many leading economists are agreed that the current situation will continue. In periods of good business, such as we have been experiencing in the last few years, firms are generally under pressure to increase salaries or add commission and bonus arrangements which will allow salesmen to participate in the added sales and earnings. It is, therefore, probable that selling costs will continue to rise.

Although re-appraisal of any activity is always appropriate, this cost factor alone should compel a searching re-evaluation of personal selling and its place in the total marketing program along the lines of two questions: (1) Has the importance of personal selling in the overall sales program changed?, (2) What can be done to make personal selling more efficient—to get a better return on investment for each sales dollar spent and thereby minimize the effect of rising costs on profits?

The objective of a marketing program is to achieve a sales goal with a minimum expenditure of a firm's limited resources such as money, time, energy, and talent. There are many alternative means by which selling can be done. A few of these are personal selling by the manufacturer, wholesaler, or retailer, advertising to consumers in consumer media or to the trade through trade papers or mail, point of purchase advertising, promotional effort aimed at retailers, sampling, demonstration, or special sales promotion plans such as dealing and couponing. Choice of the most efficient combination of means to sell a company's

products, which is one of the chief responsibilities of marketing executives, can only be made intelligently by comparing the cost and effectiveness of appropriate alternatives. The cost of any one marketing tool such as personal selling may increase to such an extent that it becomes desirable to reduce its share of the total marketing budget in favor of a less costly alternative that will be as effective in bringing customers or potential buyers to purchasing action.

In addition, the high and rising cost of selling should cause a reexamination of sales organization, training, districting, routing, compensation, and other fundamentals of sales management with a view to increasing the total effectiveness of personal selling. By means of improving all parts of the sales operation, efficiency can be raised, results improved, and the increase in total costs of selling lessened.

Lack of Adequate Planning Evidenced in Many Compensation Plan Changes

Analysis of the most prevalent types of changes and the stated reasons for these changes in salesmen's compensation plans indicates that Canadian sales managers have all too often resorted to helter-skelter, expedient, trial and error methods rather than carefully thought out decisions in regard to sale compensation plan changes. For example, one company in which the selling job was primarily detailing and service work with retailers, instituted a plan in which about a third of the salesman's total compensation was to be commission and bonus on sales volume. Because such a pay system would encourage the overstocking of retailers, this plan was clearly against the best long run interests of the company. Another company, in order to make possible the transfer of two top salesmen to poorer, undeveloped areas and thus increase total sales, reduced the commission on sales proportion of total sales compensation in favour of higher salaries. As a result, it is almost certain that total sales will drop in spite of handsome increases in the two undeveloped territories.

Such strategic errors may be avoided if a compensation plan and any proposed changes are appraised in respect to basic objectives. The fundamental and most commonly considered objectives are, of course, *income, security* and *incentive*. A pay plan must first provide a decent wage that will enable a man comfortably to cover the unavoidable expenses in a family budget. A good plan should also provide incentive or encourage a salesman to use his resources in a manner that will maximize the return on investment that his firm makes in him.

Other important objectives, which are often overlooked with unfortunate consequences, are *simplicity, flexibility, economy,* and *fairness.* No plan will be effective unless it is simple enough to be understood by all concerned. There are many cases of otherwise carefully thought

out plans that failed because they neglected this one objective. Flexibility will enable a plan to work under relatively usual circumstances such as in poorer or better than average territories, when emphasis on a particular aspect of the selling job is required, under rapidly changing economic conditions, and during extreme fluctuations in a company's sales and profits. The need for minimizing the total costs of selling—salesmen's compensation, expenses, and administrative—is worthy of special emphasis, especially in a period of sharply rising costs. Commission rates that vary by product or territory, special rewards or penalties, and provision for unusual emergencies or circumstances, are elements of a compensation program that may contribute to its fairness to all concerned and thus to improved morale.

"Towards a Grammar of Graft"

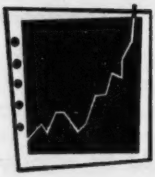
"It is curious how little notice has been taken of one of the most obvious gaps in general textbooks on economics or political science—the unwritten section on graft. Yet anyone reading the foreign, if not the home, news must be struck by the part which this basic human institution plays in affairs. One might have supposed that the economic theorist would discuss somewhere the extent to which graft, like gambling, merely transfers incomes rather than diverts resources from more to less economic forms of production. Studies abound of public taxation, direct and indirect, levied by the rulers of underdeveloped countries; why no study of the private taxation that everybody knows is levied by the same people? Again the influence of graft in forming, sustaining and undermining governments, and indeed whole regimes, is so well recognized that it is surprising that political scientists have not done more to work out a general theory of its action, toxic or tonic, in the body politic.

"One reason for this neglect may be that the home of modern economic and political theory has been Britain—and Britain during and after the period of Victorian reform of public and private morality. This seems to have led to a general assumption that the elimination of graft was a necessary concomitant of the spread of democratic representative government and of increasing wealth, industrial organization and technical progress through the world . . . Yet Britain itself won an empire, developed a worldwide trade, embarked on industrialization and defeated Napoleon when its civil service was largely an organized system of sinecures and perquisites, its parliament often largely up to auction, and commissions in its army and navy bought and sold.

". . . Asians, Africans and others may repeat Bacon's apologia that he took bribes but never let them influence his judgment . . . As a supporter of one South American dictator put it:

" 'It is cheaper for the country that he should be president for life, because he has made his fortune and is satisfied. When we changed presidents every few years, the cost of presidential fortunes used to ruin us.' "

—From The Economist, June 15, 1957.



The Role of the COMPANY ECONOMIST

S. H. Sutherland

THE role of an economist in Canadian industrial companies is still in the developmental stage but can be outlined briefly in broad terms. It is the economist's responsibility to interpret the economic scene to management and draw attention to economic developments which may affect the company's business. Implementation of this responsibility involves a wide range of activities which may vary from company to company and will be influenced by the breadth of background and experience of the economic analyst himself.

All companies carry on some economic research. Some do it directly in an organized fashion and some inadvertently 'through the back door'. In the larger progressive organizations, it is done by a specialized staff. In other companies, it is done by the executives themselves, perhaps in their subconscious minds, through their reading of relevant periodicals and trade journals and in their personal contacts.

Until fairly recently, many companies considered such casual appraisals of economic trends and developments were adequate. Growth of our economy in size and complexity and increased competition, not only within an industry but between industries, lead to recognition of the need for more penetrating economic research as an aid in planning profitable operations.

Businessmen, consequently, are paying more and more attention to the usefulness of having at hand relevant data on business operations and workings of the Canadian economy and market, when they make important decisions. Since executives are busy people, they rely increasingly on economic advisers, either consultants to whom they refer on ad-hoc basis or preferably staff specialists who are trained in the use and analysis of business and economic data, to provide pertinent reports for them. The value of staff specialists is enhanced by their intimate knowledge of the company's operations and their availability at all times.

A Recent Development

Employment of economists by Canadian industrial companies to perform this staff function has been a relatively recent development. Before discussing the business economist's responsibilities and operations in more detail, a brief resume of the expanding role in the economy occupied by economic analysts will be useful as background for the reader.

Before 1940, an industrial company employing a full time economist was an exception in the general pattern. True, the original role of economists as teachers in universities and colleges had been expanding gradually to include employment in government service. The enlarged scope and intricacies of the country's 'biggest business' and international relations required experts with specialized training. After the community had digested this first step, the next expansionary movement in the developing field of economist's activities logically followed and it was accelerated by establishment of the Central Bank. Banks and insurance companies, aware of the changing economic climate and the significance of bigness in government and industry, began to engage their own ecomic analysts. By 1940, most of the larger Canadian financial institutions had established specialized departments for economic research.

One of the first Canadian companies, outside the financial institutions, to engage in economic research was the Bell Telephone Company. This followed the pattern set in the United States, where the American Telephone and Telegraph Company had been one of the earliest in this field, setting up its own business economics unit in 1911.

The increased employment of such specialists was accelerated by the rapid growth in the volume and quality of statistical data collected privately and by government agencies. It no longer was a case of too little information arriving too late. Recognition of the importance of selecting and interpreting the significant facts from the available material made it imperative to have trained technicians on the staff.

The growth in the use of specialists in economic analysis by American and Canadian businesses might be likened to the earlier introduction of specialists in accounting and in law. As businesses grew, increasing the scope and complexity of their operations, management needed the services of staff specialists in their respective fields. Originally, outside consultants were called in as required, later to be replaced by full time permanent staff.

During the war, 'dollar-a-year' men became aware of and familiar with work done by the economic staff men in Ottawa, permanent civil servants and temporary recruits on loan from private enterprise. Perhaps the personal contacts also helped to dispel some popular misconceptions about economists as 'ivory - tower theorists' from the universities or

pseudo-socialists with 'brain-trust' labels carried over from the New Deal era in Washington.

At any rate, in the past decade there was a pronounced increase in the number of Canadian industrial companies establishing their own economic research departments and employing economists. In fact, with the advent of the Royal Commission on Canada's Economic Prospects, the demand for competent, well-trained, and experienced economic analysts exceeded the supply. Today, a blue book of leading Canadian companies would provide an index of those companies which have their own staff specialists in ecenomic research. These companies are found in practically every province with the heaviest concentration in Ontario and Quebec.

What The Economist Does

Now turn to the current model business economist. What problems and materials is he concerned with and how does he present his findings to management?

An essential, perhaps the fundamental function of economic research is, of course, forecasting. Types of forecasts range over a wide field with emphasis shifting from time to time and with the nature of the company's business. Forecasts will generally include the basic ones of population growth and future income, on national and regional bases. Estimates of future demand for a company's products derive, in part, from forecasts of consumer buying power and effective demand. The primary factors here are: how many people there are and how much money they have to spend. Wages and incomes, cost-of-living, employment, shifts of population, all are factors relevant to the forecasting of demand which, in turn, helps to determine opportunities for profitable growth and consequently capital investment in new facilities.

In large organizations, particularly those closely related to the ultimate consumer, the retail buyer, there is often a division between long term forecasting and short term forecasting. In these cases, the economic research staff prepare the longer range estimates while the short term and current forecasting, together with scheduling programs, are the responsibility of specialists in market research. It is they who are responsible for the breakdown of the overall market demand for a company's products in terms of make and model, styling, consumer preference and the other esoteric jargon of the modern competitive markets. Long and short range forecasters work in close collaboration, with recognition of the distinction of where emphasis rests in each case. As a general rule, the market research function is an integral part of the merchandising or sales division of the company organization.

For example, long range forecasts are for periods of five, ten, fifteen, and frequently twenty-five years. In this range, population growth, family formation, immigration, labour force, and age distribution of the population are basic elements. In addition, there are national income and disposable income data on national and regional bases, wage rates and employment, the movement and location of industry and social behaviour patterns. The latter are slow to change and determine to a large extent the broad trends in the ways consumers spend their incomes.

Long range forecasts, in practice, are prepared usually once a year or not less frequently than every two years. Short range forecasts are made annually and revised once or twice during the year, as current data coming in seems to warrant modification upward or downward.

The shorter range forecasts attempt to trace in advance the year to year, and even month to month, fluctuations around the long term trend of demand. The short range forecasts embrace, too, the extent of swings in preference for particular models, style, colour, and so on, seasonally and by regions. They have an immediacy and precision not so essential or possible in long range forecasts, for on the short term forecast production schedules are established and materials and supplies are purpurchased.

Other subordinate forecasting responsibilities are related to company budgetting which requires cognizance of developing trends in wholesale and retail prices and consumer price indices.

Broad View Over Broad Field

A second basic responsibility of the economic staff is appraisal of the overall economic position and prospects. An economist must keep in touch with developments in his own industry and in other industries as well as with the Canadian economy as a whole and, in some cases, also with conditions abroad, for Canada is an important trading nation.

The simplest way to ilustrate the scope of the appraisal function is to list some broad questions it would undertake to cover:

> What's happening on the government side of the business picture? Regulations, taxation, expenditure, developments in attitudes on tariffs, government-owned enterprises, social security measures.
>
> What's happening to change the basic patterns of consumer expenditure? Shifts in purchasing power by income groups or regions, in distribution patterns, technology and changes in social behaviour.
>
> What's happening to affect the total money supply and credit, the Bank of Canada's policy? How will it affect the company's business, in sales, costs, credit supply?

What about international markets and how will developments overseas affect the company?

It's simple if you read it quickly.

To prepare informative reports on subjects of this nature involves selecting from a mass of material what, in the economist's experience and judgment, is applicable to the problems of the company, its operations and future. He is fulfilling his role, in this area, if he provides management with current information interpreted in terms of the longer run trends and broader background. Day to day facts and opinions need to be kept in long term perspective to enable the executives to take advantage of current and future conditions as they develop.

Implicit in the responsibility for appraising current conditions is a task that takes a little time but is very helpful. That is maintenance of a continuing liaison with confreres in business, with staff members in provincial and municipal services, and with permanent officials in Ottawa. Those economists now in industry who established friendships in Ottawa during the war years find regular visits back and forth both pleasant and stimulating. The exchange of views is of very real value to their employers in manifold ways.

Special Projects

A third important sector of the economic research staff's duties is the carrying out of special projects which may be assigned to them. The nature of these projects ranges widely from the study of specific sectors of the company's business and the possibilities for new products and services to analysis of economic conditions and potentialities in foreign countries. Included in this area or related to it would be the collaboration with other divisions of the company in an advisory or consultative capacity.

An industrial relations department has many situations to discuss with the economic analyst: employment trends, wages and salaries, prices and cost-of-living indices. Growth of automation carries with it many potentially sigificant economic implications which need thinking through and thorough analysis. Upon occasion, the economist may be called in to collaborate with the industrial relations experts in considering the economic content in the negotiation of agreements with representatives of labour unions.

Similarly, it is general practice for the economic analyst to collaborate in the preparation of reports to shareholders, and frequently in the preparation of public addresses by senior executives.

On the less frequent occasions when a company prepares a brief or submission to an official commission or other body, on its own behalf or in conjunction with others, the economic staff is called on to participate.

These opportunities for serving the company's interests are representative of the more regular duties. The number of referrals to the economic staff for information and opinions, in fact, tends to grow as time goes on. Other departments refer more frequently to the economic staff as experience demonstrates the usefulness of their contributions.

Financial Advice

A separate or special field of activity which may or may not fall within range of the economist, depending upon his experience and background, is related to finance.

Fiscal and monetary policy play an increasingly important part in shaping beneral economic conditions and a good working knowledge of this sector of the economy is a correspondingly useful tool in an economist's kit. Industrial companies have always been concerned with interest rate cycles and market phenomena in relation to their own borrowing and capital needs. These are still of primary concern. In addition, in recent years with interest rates at current levels, the investment of surplus cash for short periods offers attractive new profit opportunities. Another aspect of this side of the company's operations where the economic analyst can be of considerable assistance to the financial officer is the field of investment finance, having to do with the investment of pension funds and other 'fringe benefit' monies.

A related field is the foreign exchange situation, in those companies whose operations involve overseas interests.

Economic Advice Needed at Policy Level

Recital of the developing role of economic analysis in industrial companies suggests the economist's place in an organization. Many executives express the view that he must be placed high in the company organization if his work is to be of maximum effectiveness. In order to appraise the significance of economic events to the company, he must be familiar with the company's operations and plans. If his advice is to be of value, it must be given directly to those responsible for making policy decisions. Generally the economist, as a result, reports directly to the president or a senior vice-president.

In order to make his reports, forecasts and appraisals serve their full purpose, the economist establishes a minimum number of regular reports to management. These are supplemented by special reports as projects are undertaken or events of unusual significance occur. The regular reports usually are presented in a standard format and embrace comments on the basic economic indicators with emphasis possibly shifting from some items to others as seasonal changes suggest. Although practice may vary from company to company, the reports frequently include charts and graphs which are helpful in providing perspective or in highlight-

ing trends referred to in the related material. Brevity, without obscurity, is essential. The use of non-technical language is of great advantage.

The economic analyst today is fortunate in the availability of comprehensive and reliable statistical data as compared with earlier years. Necessarily, he has a weighty incoming mail bag. Statistical bulletins and periodicals flow in from the Dominion Bureau of Statistics, the Bank of Canada, the United States and other foreign sources where appropriate, all of which are an essential part of his working material. Statistical data on his own industry and company, too, are essential in his work and are routed to him through established channels.

Generally, the economist is responsible for scheduling the order of importance of economic reports and special projects. The breadth of the field of his operations, however, is a temptation to empire building. A staff, adequate to the tasks assigned, is necessary but should be kept to a minimum. A very large staff could be fully occupied in interesting research and exploration in many fields. But it is questionable how immediately useful and appropriate to the company's business such efforts would prove. Better to leave these delightful but costly 'think pieces' to adequately endowed foundations.

Experience indicates that it is practicable, by using judgement and selectivity, to operate successfully with a secretary and one or two assistants. There is one proviso. It is essential that the economic research staff have cordial co-operation from the other departments of the company, notably financial analysis and market research staff.

In a limited number of cases, the inflow of material and the build-up of essential reference volumes and files have led to creation of an economic reference library for the company, under the supervision of the economist. This has proved a useful service for information and research purposes within the company.

Conclusion

An attempt to present briefly a description of the role of an economist in industry at the present stage of development must necessarily be inconclusive for no standard pattern has crystallized as yet. This summary is representative of what may be typical of a number of economic research operations but there are undoubtedly omissions and subjective shifts in emphasis on the relative importance of responsibilities, operations and objectives.

In conclusion, the relationship between management and economist might be broadly summarized as follows:

In effect the executive attitude is:

> We live in a highly complex economy; tell me where we are now and where we are going and tell me in

> concise, non-technical terms; first in terms of standard economic measures and then in terms of my business.

The economist's response is:

> He will do his best on the assignment as stated, recognizing that economic analysis and forecasting are not an exact science. He is working in an area of human behaviour where broad trends do exist but wide departures from them will occur from time to time as the cumulative results of managerial decisions. Long term trends are more dependable than short term cyclical fluctuations about those trends and he is not in a position to predict with absolute certainty.

The improvement which has occurred as better and more current statistical data became available will continue. The more we know about long term conditions the better the chance to avert or modify adverse cyclical fluctuations.

The New School of Business Administration?

". . . Select and date the buildings which appear to have been perfectly designed for their purpose. A study and comparison of these proves that perfection of planning is a symptom of decay. During a period of exciting discovery or progress there is no time to plan the perfect headquarters. The time for that comes later, when all the important work has been done. Perfection, we know, is finality: and finality is death.

"Thus, to the casual tourist, awestruck in front of St. Peters' in Rome, the Basilica and the Vatican must seem the ideal setting for the Papal Monarchy at the very height of its prestige and power. But a glance at the guidebook will show that the really powerful Popes reigned long before the present dome was raised, and frequently somewhere else. The great days of the Papacy were over before the perfect setting was even planned.

"This sequence of events is in no way exceptional. Just such a sequence can be found in the history of the League of Nations. Great hopes centered on the League from its inception in 1920 until about 1930. By 1933, at the latest, the experiment was seen to have failed. However, its physical embodiment—the Palace of the Nations—was not opened until 1937. It was a structure no doubt justly admired. Deep thought had gone into the design of secretariat and council chambers, committee rooms and cafeteria. Everything was there which ingenuity could devise—except the League itself. By the year when its Palace was formally opened the League had practically ceased to exist.

"In Washington, the visitor will also observe the imposing marble-and-glass headquarters of the Teamsters' Union, completed not a moment too soon before the heavy hand of Congressional investigation descended on its occupants . . ."

—C. Northcote Parkinson, inventor of "Parkinson's Law", in Harper's Magazine, September 1957.

CANADA'S MODEL WORKMEN'S INSURANCE

Eric Curwain

Today, with industries fully mechanized and partially automated, Nature's proudest offspring, Man, has become the weakest link in the chain of production. He is fragile and breaks or tires easily.

Every working day, the Workmen's Compensation Board of Ontario deals with more than 1,100 reported accident cases and at least one fatal accident.

Any worker in industry or in the retail trades, if injured while working sends an automatic SOS to the Board, and for the remainder of his or her life, has, for this compensable accident, a free claim to medical, rehabilitation and pension services unsurpassed—some say unequalled—anywhere in the world.

(This article refers specifically to the Workmen's Compensation Act of Ontario unless otherwise stated.)

IMAGINE for a moment a foreigner planning to set up a new factory in Canada. Among the laws and regulations with which he must comply he finds an interesting code called "Workmen's Compensation". If he is locating in Ontario he is likely to be impressed by the generous terms accorded workers injured during employment. Should he ask a fellow industrialist "How did this thing start?", the other might answer in the words of James I of Scotland, speaking of the English parliament: "I don't know. I found it here when I arrived."

Such ignorance would be pardonable because it is 42 years since the Ontario Workmen's Compensation Act came into force. There would be relevance, too, in the historical comparison with the English parliament because the Workmen's Compensation Board of Ontario has taken as its motto the principle set forth by its pioneer—Sir William Ralph Meredith—"Justice humanely and speedily rendered."

Three Main Achievements of W.C.A.

Sir William, then Chief Justice of Ontario, was appointed Royal Commissioner to study workmen's compensation laws in other countries and to draft an act suitable for Ontario. After four years of study his report emphasized the necessity "to get rid of the cost nuisance of litigation, because this is a process totally unsuited to the needs of the injured workman or his employer".

The Act resulting from his report accomplished three things: first, workmen's compensation was removed from the private insurance field; second, the majority of employers in Ontario were to pay an annual assessment into an exclusive non-profit fund to provide compulsory collective liability; third, the Act was to be administered, under statute, by a three-man Workmen's Compensation Board having exclusive and final jurisdiction.

Since 1915, the Act has been amended almost annually to keep it in line with industrial, medical and social developments; and now its basic principles have come to be known throughout the world. One proof of this is the action of UNESCO in sending students from Asiatic and other countries to Toronto to study the operation of the Board, including its unique rehabilitation centre at Malton, near Toronto. Students from south-east Asia and other countries under the Colombo Plan also visit Toronto for the same purpose.

Who is Covered by the Act

This law does not apply to all industries, but applies to the industries enumerated in Schedule 1 and Schedule 2 of the Regulations.

In the large list of industries in Schedule 1 under the collective liability system, the Board collects assessments from the employers, forming an accident fund out of which compensation and medical aid are paid; while in the much smaller list of industries in Schedule 2 each employer is individually liable to pay for compensation and medical aid to his workmen for accidents as they occur.

Schedule 1 includes the businesses of manufacturing of all kinds; lumbering, mining, quarrying, milling, packing, canning factories, printing, warehousing, teaming, taxis and buses; building in all its branches; coal and wood yards; operation of theatres and moving picture places; gas works; light, power and waterworks systems; construction of all types; fishing, dredging and stevedoring; repair shops, including automobile repairs; butchering; bakeries; dairies; hospitals, hotels; wholesale stores or warehouses; laundries; dyeing and cleaning; office buildings and restaurants; and some others. (As of August 1957, approximately 85,000 firms were under Schedule 1 in Ontario.)

In Schedule 2 are the businesses of railway, express, telegraph, and Dominion telephone companies; navigation, towing, and marine wreck-

ing; municipalities, commissions, and school boards; and the Crown in right of the Province.

All Ontario Provincial Government employees are entitled to benefits under the Workmen's Compensation Act.

Ratio of Administration to Benefits

As stated, approximately 85,000 firms are under Schedule 1 of the Act in Ontario. Before January 1st of this year, retailers in the province were not compulsorily under the Act although some, including certain chain stores, took advantage of it voluntarily. No contributions of any kind from employees are permitted.

Administrative costs of the workmen's compensation in Ontario are eight cents of the dollar of funds received; the balance of 92 cents goes to the treatment, rehabilitation and compensation of the injured workman. Comparing this with the breakdown of costs in the United States, one may quote an American who recently claimed with pride that in his State, compensation was administered so well that the injured man received 50 percent of the funds collected from employers.

With the comprehensive benefits provided in Ontario it might be thought that employers would be paying more than employers in the United States. In reality they are in most cases paying much less. A large proportion of the money collected below the border is used up in administration expenses, insurance company profits and overhead charges. In Canada, workmen's compensation is conducted at cost, and the boards in the various provinces have no motive either to give the workman or his dependants less than they are entitled to, or to charge the employer more than he should pay.

It is true that there can be no direct comparison of workmen's compensation costs with insurance company premiums in Canada as the latter do not offer similar benefits for similar premiums. However, a study of compensation by a leading Canadian financial publication stated that insurance of an exactly similar nature would, if written, cost five to seven times as much.

What is an Accident?

Since an accident, once accepted by the Board as coming under its ruling, becomes its permament responsibility, it was important from the beginning to define carefully the meaning of the word "accident".

Under the Act, negligence of the employer or carelessness of the employee are not factors in determining compensation, the fundamen-

tal requirement being that the accident must have arisen *out of and in the course of employment.*

A study of some recent borderline cases may be of interest—

Case A. Claimant was a truck operator. Because it was raining that day, he was not working, and along with a number of other men was standing in the camp yard observing machinery being taken from a truck. The truck backed up, struck the claimant, causing injuries. The claimant was not under pay. He lived at the camp and had his meals there. The Board rejected the claim as it did not occur in the course of employment.

Case B. The claimant had been representing his employer at a convention. Immediately after this and while proceeding to the parking lot to get his car he tripped over an obstruction outside the hotel and injured his hand. This accident was considered as arising out of and in the course of employment and the claim was allowed.

Case C. Claimant was a radiographer required to handle radioactive substances. A check was kept of his white blood count, as a result of which it was felt by the doctor in attendance that he should lay off work until his blood count improved. It was decided to allow and pay compensation for the short period of the lay off.

Case D. Claimant was employed as a mechanic. In May 1955 he suffered laceration and contusion of a finger. The area around the finger became swollen and inflamed and the reddened area did not clear. From this central point the skin condition gradually developed in January of 1956 and all fingers were swollen and stiff, and the skin thickened on the finger, hand, and on the forearm up to the elbow. In May 1956 further diagnosis showed Scleroderma. It was found that it could not be said that the original accident was not the aggravating factor. The claim was allowed.

Assessing Employers' Premiums

The accident incidence (experience) in each separate industry forms the basis on which premiums are paid. Where accidents are frequent and severe, as in saw-logging, premiums are correspondingly high. In the retail trade, where accidents are less frequent and less severe, rates are low. A few specimen rates are:

	Premium per $100 of payroll
Saw-Logging	$13.50
Shaft sinking for mines	6.50
Bricklaying, plastering	2.50
Truckers	1.75
Retail Trades	0.25
Needle Trades	0.15

Assessment is paid only on an employee's earnings up to $5,000 per annum.

If there are two employees (in a retail or other small business) earning a combined total of less than $5,000 per annum, the total cost is still only $10, the minimum assessment.

The same rate applies to employers, partners or executives who wish to put themselves under the Act, since any employer can cover himself too. Many employers avail themselves of the Act's coverage.

The fact that many retailers enrolled under the Act for coverage before it became compulsory suggests that they appreciated its benefits. One insurance company enrolled its employees under the Act for the same reason, an indication that from an actuarial basis the rates are advantageous.

What Happens to an Injured Workman under W.C.A.

All doctors in Ontario receive from the Board a Medical Handbook outlining every aspect of procedure for W.C.B. patients. The doctor reports fully to the Board's specialists everything relevant to the case. A docket is set up and kept permanently on file in case of disability recurring from the injury.

When an injury disables a workman from earning full wages for more than four calendar days he is entitled to compensation. The only exception is when the accident is attributable solely to the serious or wilful misconduct of the workman and does not result in death, or, in the opinion of the Board, serious disablement. The question of negligence by employer or workman does not affect the matter, and the old legal defence of common employment and voluntary risk no longer applies.

The benefits provided under the Act are in lieu of the right of action for damages and such actions cannot be prosecuted for matters covered by the Act.

Four Types of Compensation

(a) *Medical Aid Only*: This applies where the workman is not disabled for the required period giving entitlement to compensation, i.e., over four calendar days. He is nonetheless entitled to all necessary medical attention as a result of the accident.

(b) *Temporary Total Disability*: When the workman is temporarily totally disabled for more than four days, he is paid compensation based on 75 percent of his weekly earnings in the four weeks prior to the accident, up to a maximum compensation of $72.11 a week. The minimum compensation

is $15.00 a week, unless the average earnings are less than $15.00, in which case he receives the full amount of his average earnings.

Compensation, paid every two weeks, terminates when the man is declared fit, whether or not a job is available. The Board's Rehabilitation department is always available to assist the disabled in job-placement or re-training, but the Board is not an employment agency for those with no disability.

(c) *Permanent Disability*: After maximum recovery is reached, an award for permanent disability is considered, based on percentage of disability and the earnings in the year prior to accident. This point is a delicate one when the injured person is an apprentice, and not yet earning his potential life-time wage. Special regulations apply here, and also to minors who are injured.

Pensions are not affected by other income, other pensions, income tax, or succession duties.

A workman receiving a pension from W.C.B. may have his claim re-opened at any time, if treatment of the compensable disability is needed. If disability has increased, the amount of pension may be re-assessed.

(d) *Fatal Cases*: When the accident causes death, the widow gets $75.00 a month until death or remarriage. Dependent children get $25.00 a month each until age 16. If a child continues its education, payments may be extended till the end of the school year in which the child becomes 18. The widow receives a payment of $200.00 to apply on immediate expenses and the Act provides up to $200.00 more towards funeral expenses. If the widow dies the orphans receive $35.00 monthly.

Rehabilitation of Injured Workman

In cases of less serious injury, medical rehabilitation is usually provided through existing local facilities. In more serious cases, the Board's Hospital and Rehabilitation Centre near Toronto, which accommodates 500 patients, is used. This centre has everything needed for physiotherapy and remedial medicine. A new centre in North Toronto, replacing the temporary wartime buildings at Malton, will be ready for use in 1958 and, at a cost approaching $6 million, will be unique in the world by reason of its remedial services and modern equipment and techniques.

Only medical men and those who have either suffered a severe accident or been brought closely in touch with a badly injured person know the traumatic impact of physical disability. Rehabilitation mentally and physically is a prime duty of the Board, which employs a large staff of specialists and therapists.

One interesting challenge to the staff at the Board's centre lies in the ethnic groups of injured persons. Visitors to the centre comment

on the foreign language notices posted up for the patients' benefit—in Italian, German, Polish and Ukrainian, as well as English. Many bush and mine workers speak little English, and they form a big proportion of the persons treated at the centre.

One measure of the Board's results may be gleaned from the fact that its film on rehabilitating a worker who had lost a limb—the film entitled *Teamwork in Action*—recently won first prize in a contest of such films from 17 competing countries who between them submitted 47 films.

Administering the Act

The Board is a body corporate of three members who are appointed and hold office during the pleasure of the Lieutenant-Governor in Council. They have exclusive jurisdiction in all matters concerning that part of the Act administered by the Board, and devote their entire time to these duties.

Through their frequent visits to industrial, mining and wood operations, and their constant and immediate contact with district offices, the three-man Board has a day-to-day picture of compensation and rehabilitation happenings in Ontario.

The district offices in Ottawa, Windsor, Kitchener, Port Arthur and Cornwall, the audit office at North Bay and the chest examining stations at Elliott Lake, Fort William, Kirkland Lake, Sudbury and Timmins serve the Board in its provincial-wide activities. The district offices and audit office are connected to the Toronto head office by teletype.

The Board's medical and rehabilitation officers travel the province continually. Seminars on compensation are arranged in many centres by the Public Service department.

Through the medical reports on each accident case and through personal interview, the Board's medical (including radiological) specialists are in touch with the doctors of Ontario, each of whom is given a code number in dealing with the Board.

The Board is now installing electronic computers and using Integrated Data Processing. Some idea of the volume of business handled is shown by the figure of twenty thousand letters (combined in and out total) daily, and the approximate number of cheques—12,500—mailed weekly on behalf of claimants. There are some 1,300 W.C.B. employees in all the Board's offices, including the Centre.

A Cross-Canada Comparison of Compensation

Each of the ten provinces has a Workmen's Compensation Act which provides that, in any industry to which the Act applies, workers who sustain injury by accident arising out of and in the course of employment or who are disabled by specific industrial diseases are entitled to compensation. All of these Acts are of the "collective liability" type.

Benefits under the Acts include periodic payments to the workman during temporary disablement (in eight provinces on the basis of 75 percent, in two provinces on 70 percent of average earnings, subject to the maximum annual earnings provided in the Act); an award for permanent disability (based on 75 or 70 percent of average earnings, as above); all necessary medical aid, including hospitalization; and rehabilitation. In case of death by accident, fixed monthly payments are made to dependants. In addition to a monthly pension, the widow receives a lump payment and an allowance for funeral expenses.

The 'Intangibles' of Workmen's Compensation

As no business is accident-proof, it is comforting to know that throughout Canada, with its provincial Acts, there is always 'A Doctor in the House' when accident strikes a workman. An injured person without compensation would feel he had become one of the *Have-nots*: W.C.A. makes this impossible. It is therefore a good industrial relations plan from whatever angle one views it. Its advantages, tangible and intangible, are appreciated even more when we compare our own compensation Acts with practices ruling in other countries.

"Do We Learn From Experience?"

"Much useful economic experience and expertise is allowed to evaporate in Government. Officials get moved, resign, die, or simply forget. Once an economic decision has been taken, they are usually too busy with the next issue to have time to devote to a full analysis of the effects. More experience needs to be committed to paper, and more post-mortems conducted. We write long economic histories of the war, but neglect the peace.

"Perhaps this, and other, gaps could best be filled by creating a new semi-official economic research institute. Its members would not be officials, though appointments might have to be approved by the government, since close contact with officials, and access to confidential (and some secret) material and opinions would be necessary. Exchange of personnel (between departments) and close co-operation with its director should be normal. Other officials might well be seconded to it for a while, to provide them with a welcome rest from their administrative cares, and to give them time to think and to record their experience.

"Such an institution would also help to increase the supply of trained economists for the government service proper. Publication of results should be permitted whenever possible, for this would make it much easier to attract good economists. Difficulties posed by its semi-official status should not be insuperable.

"Even where the individual departments themselves employ economic advisers, they might benefit from studies conducted by an institution with full access to the facts but free from day-to-day concern with the political and economic implications—and also free from the departmental loyalty that can make one forget that the economy functions as an integrated machine which cannot itself be departmentalized."

"The Economist in Whitehall", D. M. Little. From Lloyds Bank Review, April 1957.

CHANGING ORGANIZATIONS *for* *CHANGING* MARKETS

Walter A. Thompson

Business generally has been going through an unprecedented period of self-examination. Some of this activity harks back to a desire to do something much better than was done during the planless and "hang on" days of the thirties and the "crisis" management of the war and immediate post-war period. Many a skilled executive knows less about how he does his job than a good baseball pitcher knows how he makes the ball behave. Organizations vary from the loosest possible structure—with people thrown into the situations—to meticulous spelling out of formal organization structures. In the former, there is hope that things will work out. In the latter, there is often the impossible search for men to fit the slots that have been laid out. A study at Western, published in the Business Quarterly, Winter 1955, found that about half the firms had no formal organization chart.

MAYBE a start should be made at the term "organization". Much of the literature in the field could be more helpful. The problems of administration and organization structure go hand in hand. A good administrator gets things done, working with and through people. It is his job to obtain maximum possible contribution from the individuals in the organization toward the goals of the organization unit. Chester Barnard calls an organization "a coordination of two or more people in a systematic way." In the ultimate analysis, organization is the composition of cooperative acts. Along with today's introspective attitudes, is a consciousness that the business unit is becoming larger and one man cannot be expected to do the whole job. Furthermore, cooperative action in business simply cannot be left to chance alone.

This paper is not dealing solely with the straight mechanics of organization but with the following:

1. The pressures that are having, and will have, effect on our marketing organization.

2. Some of the results of these pressures on individual firms.

3. Some of the skills that will effect the ease of the organizational shifts.

Changes in Canadian Market

Our marketing world is in process of rapid change. The following is a brief run down:

1) The tempo of change in Canada has been accelerated. Competition is willing to take chances. A large number of foreign companies spend large amounts of money to break into the Canadian market.

2) New competitors are shouldering their way into markets. Many of these firms are from the U.S. Others are from Europe. They are often willing to spend money in untraditional quantities to make a place in the market. Most are willing to make a strong gamble on the 25 year growth of Canada. In the interim the market is affected by a heavily expanded plant capacity of companies hungry for customers.

3) The product situation is evolving in a most interesting manner. On the one hand our scientists are presenting entirely unique and individual products. While this is happening, the widespread knowledge of production techniques have continued to knock down product differences in many areas.

4) Automation has many market organization implications. The marketing department must assure management the product is right and justifies the capital outlay. Marketing men must be prepared to sell a product without change for extended periods, to sell larger quantity to justify larger fixed costs.

5) The costs of hiring, training, and maintaining a sales organization on the road are high and rising.

6) Channels of distribution are shifting and new store types are appearing. Generally, the economy seems to be up against a growing concentration in retailing.

7) Pricing strategies are becoming more complex. Leasing arrangements in some areas are giving way to outright sale. Government interest in pricing processes has not diminished.

8) Advertising media have refused to stay in a static position.

9) The total consumer spendable income continues to rise. The proportion of disposable income involving consumer choice continues large. Inter-product competition was never heavier.

The list could be extended. The total market is fantastically larger than many once contemplated. Many firms are selling more in a month than they once sold in a year. Top management is willing to think in terms of what the market will be in the years ahead. All these forces point to the necessity of making way for two important things in our organization structure: flexibility and time for planning.

Changing Sales Organizations

Canadian sales organizations have been responsive to the pressures that have been outlined. Top management during the past ten years have devoted much thinking to this. Organization structure should reflect, if it has good balance, the problems confronting the business unit. The spelling out of organization structure becomes more important in periods of rapid change. When the situation is static and business is operating in a healthy manner, organization structure is a little discussed issue. People have a good idea of their authority and responsibilities. They know whom they work with and what is expected of them. This static picture is certainly not with us today.

The role of the senior marketing man has undergone substantial changes in the past decade. He is now, with growing frequency, given the title of Vice President. He has acquired a larger functional staff. While it is by no means a uniform situation, the firm president has turned over the coordinating job to the marketing head. Thus, advertising managers and product heads are tending to report to a marketing head rather than to the firm president. At the same time, more marketing heads have been relieved of the day-to-day responsibility of supervising salesmen's activities. A sales executive, in the broadest sense, has developed. This move has given the top sales executive the time and the opportunity to be a real member of management's first team. This switch should make possible better planning and more specialized executives.

The planning function is being better cared for in shifts in organizations. There was a time when "research" was a vague word. It has now been really put to work. From a personal point of view, this once dead-end has been used by some men as a line of promotion to top responsibility. Development and planning have taken many forms. It sometimes appears under the label of new product departments. Actually, too, much of the responsibility of special product departments is in the area of straight planning. Some have told me that too many things were left undone until this function was set up as a special unit. Much of the planning involves long term forecasts of markets. The

result of this sort of work has much to do with plant building and expansion decisions. The variation in load in this sort of work has led some companies to use outside help—keeping the size of this unit within the company to a minimum. More and more money is riding on these decisions. The marketing problems in Canada *are* unique. In the area of straight product research American and European experience is often valid. This is simply not so in the field of marketing.

Arthur Stone Dewing, in his classes at Harvard, used to lay down a rule regarding the starting of a new business. His test rested on the extent of the improvement of the product over competition's product. If the improvement was small, one should try to make a deal with an existing firm in the field. The improvement had to be marked before one should start a new company. Product research is turning up good products. This often happens in a company that has no experience in marketing the improved item. With real profit possibilities in these new items many companies embark on the sale of radically different lines of products. Minnesota Mining and Manufacturing is a good example of this kind of company. The need for product and market planning is obvious. The success of this sort of thing has changed the complete character of some of our companies.

The increased cost of day-to-day sales department operation has forced better planning, even though no revolution in products or markets is taking place. The salesman simply has to be a better selected and trained man. It costs money to do this. Low pressure, honest sales work costs more than a one shot high pressure approach. The costs of keeping men on the road are real. Maximum effectiveness must be achieved. The balance is swinging in the direction of planning as opposed to execution and the organization charts are reflecting this situation.

Relations with Head Office

The relationship between head office and field offices is changing in some companies. Some of these changes reflect the tendency, generally, to decentralize. Decentralization of sales operations occurs under certain circumstances. This happens when the size of sales is large, when there is some uniformity in product and customer needs, and when personnel are available at branch level to take on the job. There are real problems involved in extending a branch man's responsibilities. The skills involved in handling straight sales contacts and the skills involved in doing a "total" job are different. Even though a district man may clamour for doing the full job (auditing, inventory, advertising) he may simply not be ready for it. Further, many head office managers are reluctant when the chips are down, to give up these jobs. Nevertheless, the need for flexible action and increase in size of market has called for

real moves in this direction. As the sales job becomes larger, there have been some real tendencies to insert "Eastern" and "Western" managers between head office and the districts.

There should be some notation of tendencies toward centralization. The need for flexibility has been pointed to as a background factor in moves toward decentralization. This same factor has been named as the cause for movement of authority toward head office. In one instance this was due to unreadiness of the local office to take on the job of selling a very wide line. Competition became so vigorous in specialized lines that products had to be adjusted to customer needs. This seemed to be best done by close head office-customer contact. In this particular situation head office took over and the branch office became merely a physical headquarters for salesmen. The branch manager became "office manager" in the usual sense, with little line authority. In another instance, the branch office was relieved of certain jobs, such as credit and collection, to allow for more time on straight sales contact work. This move was hastened because many new branch managers did not have a broad experience. It was felt that the number of branches had to be increased. Head office and branch relationships are changing.

Channel shifts are causing changes in sales organization. The problems involved in selling in our large chain organizations are different. Institutional sales are growing factors in many areas. Thus, we see special units creeping into selling organizations to handle these problems.

How to Effect Change

Personal problems are involved in change. Change frightens people. Needed changes are often resisted. People are just about the only tools used in the sales departments and they are too important to be left out of this paper. Some discussion of the means used to bring about changes with maximum effect is in order.

The problem of *what* to do is often easy. The tough question is usually *how* to do it. It has been suggested that a person should not start a programme of change until he really *knows* what sort of an organization he now has. This means a good deal more than looking over an organization chart. It means a full knowledge of *how* things are getting done, how people look at their jobs, the job satisfactions that exist, the past history of changes, and a host of other situations. In short, there should be a knowledge of the "whole" situation. With a knowledge of the strength, weaknesses and attitudes of our human resources, one is in a preferred position to shift the approach to think about meeting new problems. One commentator has suggested that one should work out the ideal situation and then start to work to it with what now exists. Timing is of maximum importance. One of the larger companies has gone through three drastic changes in their sales organization in a

period of six years. A man very close to the situation is now quite sure that a first change could have been quite successful. The difficulty in his opinion, was due to the *manner* in which the change was carried through. How one goes about doing a job is significant.

Change can be easier in a healthy overall situation. The creation of an atmosphere to accept necessary change is not easy. This atmosphere cannot be created overnight. When reasons for changes in sales organization are apparent to the whole organization, it is much easier to make changes. During wartime, people accepted leadership. Much of our business leadership is found in the skill of making people realize they or the company have a problem. Once the existence of the problem is understood and felt, the organization is in a better position to accept changes. When members of the organization know the problem, they are in a position to contribute answers. Much time has been spent talking about better comunications. It is believed that much planning should go into "up and down" communications. Much of this discussion is not necessary when you have ample opportunity for face to face contacts with organizations. Once you really know a person, you usually have little trouble "communicating" with him. A good part of the understanding of any problem is the continued realization of the main purpose of the organization and organization unit. This sounds pretty naive. However, many know people who are behaving in a manner that proclaims ignorance in this subject. Vigorous and frequent man-to-man contacts help in keeping goals and problems in front of people. When this happens, solutions, often in the form of changes in organization structure, are easy.

Business is run better if everyone acts as though the line man, in our case the salesman—is doing the job that really counts—getting sales. Everything the organization does should be to help him do his job well. This sense of proportion puts many things in proper balance. An intolerance of things that get in the way of making the goal of getting maximum sales effectiveness is desired.

It is most desirable to get your criticisms before action by people who are active and interested in achieving our main goals. People like to have "their say". Intelligent people working with problems have ideas. When they have not been given the right to "their say" in events, the solution is missing intelligent help. Such action asks for trouble. People treated like children often act like them. It is very easy for an intelligent person to sabotage a good plan.

A great contribution to a healthy attitude to change is timing. A good salesman is at his best when dealing with this kind of problem. Many "rushed through" schemes end up in the ash heap because of this fault. The use of committees, outside specialists, careful handling of bruised feelings, all are good tools that can be used in specific situations.

Special Problems

Some very particular kinds of problems are common today in organization shifts: bringing new men into the organization at a high level; the creating of new jobs that have not existed before; creating staff positions; and the development of one's own men to take on the new jobs.

The bringing of a new man into the organization at a fairly high level is not easy. Everyone expects to get a "crack" at the job ahead. When the plum is given a stranger, the firm has dissipated one of its strongest work incentives. Poor planning of future executive needs is probably the greatest sin top management can commit. There are many disadvantages of going outside the organization for a man for a high position. We should make sure we don't have a man who can be brought along for the job. There is often too great a tendency to overlook good material at home. Familiarity often breeds lack of appreciation. The quality of overlooked human material is usually well known to the rank and file of the organization. If the overlooked man is good a lot of damage can be done. A further point of consideration is that it is taking a higher premium over existing income to get good men to move from another company.

In spite of all disadvantages, many times it is necessary to go outside the company for a man. Some firms have failed to do this and promoted unqualified company men. I recall two instances of inept company men failing in positions that should have been filled by well qualified "outside" men. One of these cases in the U.W.O. Marketing Management Course deals with a successful "New Man - New Job" situation. The president wisely chose a man in his mid-fifties. He brought a man with knowledge that did not exist in the company. He also got a man who would retire in the foreseeable future to make way for an employee who could be trained. Some other things should be remembered in a "new man - new job" situation. There is often a tendency for the new man to bring along subordinates. This is often natural and has real advantages. On the other hand, some of the men already on the scene can be invaluable in "showing new men around". Furthermore, they should know much of the problems ahead of the organization unit. Tactful follow through and "getting to know" new key men is a "must" for the organization. Careful acquiring and handling of new men is a high skill.

The proper use of staff people in a sales organization is a real "must". The specialist is certainly needed to cope with today's problems. Industry must be able to integrate these useful people into its formal organization. It is not easy. A good starting point to proper use of staff people is a clear understanding of where line and staff stand. Over sensitiveness on the part of both line and staff on this point can cause

real trouble. Over-aggressiveness on the part of a staff man often brings difficulties. A real understanding of the problems of the organization and a mature person can do much to help the situation. Line people have been known to ignore the work of competent staff people. Perhaps one should at this point look at the remedy in terms of an overall healthy situation. This was discussed at some length earlier in this paper. A newly promoted staff man must be given time to orient himself. A line man moving into a staff position is taking on a vastly different kind of job, staff work involves a more contemplative approach to problems. The line man is used to direct and quick action. The staff man has to get used to the idea that he has to sell his ideas to the line. A tendency of a staff man to rely on the authority of "the boss" will not make for long-time serenity. The absorption of a staff function into an organization cannot take place overnight.

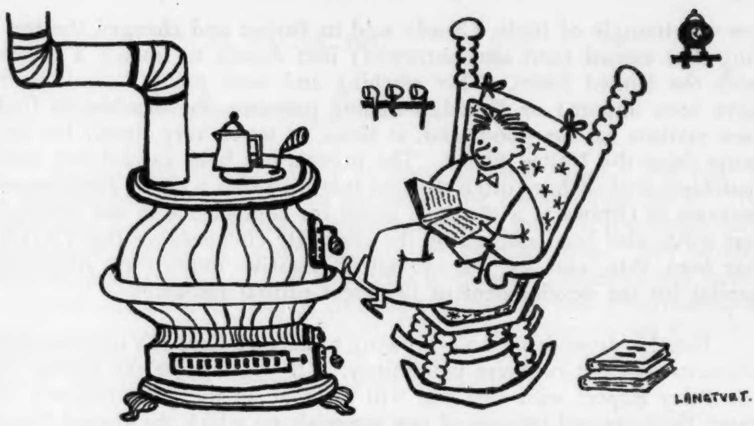
Sales organizations are becoming more complex. There will be a continued tendency in this direction. When one talks about organization, one is talking about people and how they are going about doing jobs together. Organization shifts come better as evolutions. Each problem will be valued better and faster as one fastens our focus on people and problems. One can't know too much about either. What has been said and thought about other companies' organizations is interesting and sometimes helpful. One must look at a particular situation when figuring answers for a particular sales organization structure.

American Investment

"If, as we may expect, there is considerable improvement over the next few years in the receptivity to investment in many areas abroad and in the relevant policies of our Government, we are convinced that we will witness a veritable explosion of interest in foreign investment...

"There is no reason beyond human remedy why all countries—to the immense benefit of their citizens—could not partake fully of the burgeoning of international investment which we believe possible, and likely, in the next few years."

—Emilio G. Collado and Jack F. Bennett, of Standard Oil Company (New Jersey), in the July issue of "Foreign Affairs".



BOOK REVIEWS

BALANCES AND IMBALANCES OF PAYMENTS

by Sir Geoffrey Crowther, Harvard University, 70 pp. $2.00.

When an economist can present as pithily, lucidly, humorously, and simply the fundamental problem of international trade as Sir Geoffrey Crowther does here, he can be assured enthusiastic readers, even if he produces some disagreeable predictions for Canadians. According to Sir Geoffrey, former editor and now managing director of The Economist; "It will not ever be possible, in our lifetime, for the countries of the Eastern Hemisphere wholly to remove their controls on the purchase of dollars and therefore their discrimination against dollar goods. The Two-World system, in short, will continue . . . Within the Eastern Hemisphere, and particularly in Western Europe, the wind is blowing quite strongly for competition. It is regrettable that trade cannot be what I may perhaps call omnilateral. But it is, and increasingly will be, multilateral, and that is perhaps what matters most . . . we are already learning to live with our Two-World system. No one has adapted himself to it more quickly, or in a more realistic spirit, than the American businessman."

There is equal praise for Canada. This inconvertibiliity of European currencies, and especially sterling, hits Canada hardest of all. In the

pre-war triangle of trade, Canada sold to Britain and changed the sterling thus earned (and also borrowed) into dollars to finance a deficit with the United States. "Far reaching and most painful adjustments have been imposed on Canada's trading pattern. She has had to find new markets for her goods and, at times, to watch very closely her imports from the United States. The process has been carried out with matchless skill—I have often thought that the small body of government servants at Ottawa is without an equal for competence in the world—but it has also been assisted by the fortunate circumstance that Canada has been able, year by year, to attract massive imports of American capital for the development of her great natural resources."

But this dependence on borrowing to balance Canada's international accounts will not continue indefinitely. "If you analyse the figures of the Paley Report with care you will see that, in the great majority of cases, the increased imports of raw materials on which the United States will depend wil come either from Canada or from the Caribbean area. The Paley Report is a charter of economic hope for the U.S. dollar-using neighbours. There is relatively little in it for the Eastern Hemisphere."

As far back as 1937, Sir Geoffrey Crowther emphasized that the Dollar Shortage was something permanent and organic, impervious to change through normal economic adjustments such as currency devaluations, owing to the world's insatiable demand for dollar goods and the relative indifference of American demand for goods from the rest of the world. The years have vindicated his viewpoint and he has had the satisfaction of the heretic, being accepted as orthodox. "Maynard Keynes, in the last months of his life, attached his hopes to the belief that the inflation of costs in the United States would rapidly restore equilibrium. But clearly he has been proved wrong. Rapid rises in American wage levels there have certainly been. But the rise in the productivity of labour has been almost as rapid, with the result that, on the whole, the level of manufacturing costs in the United States, relatively to the level in other countries, has been falling rather than rising."

All this is precisely what makes so difficult Mr. Diefenbaker's objective of switching fifteen percent of Canada's imports from dollar goods to sterling goods.

CANADA, 1957

Queen's Printer, Ottawa. 317 pp. $1.00.

CANADIAN FISCAL FACTS, 1957

Canadian Tax Foundation, Toronto. 215 pp.

Businessmen should have both these at their elbow. The first is a popular, profusely illustrated edition of the Canada Year Book. The Dominion Bureau of Statistics deserve congratulation on producing such up-to-date figures in such readable and graphic form. But besides figures this Canadian official handbook of present conditions and recent progress also includes history, cultural relationships and government, as well as an excellent coloured map. There are chapters on Canada's recent output and growth over the past years, our domestic and foreign trade, transportation, communications, banking and insurance.

"Canadian Fiscal Facts" provides the principal statistics of Canadian public finance, with interesting comparative tables going back in some cases to Confederation. With the publication of this first edition, the Canadian Tax Foundation realizes a long-cherished ambition. Much of its material has not hitherto been available to the general public. Here for the first time are collated and compared not only federal, but also provincial and municipal figures of annual revenue and expenditure, debt and tax rates. Indeed the Foundation has combined revenue and expenditure and debt of all governments to produce some particularly interesting figures. For the 1955 Canadian population of 15,698,000 total government, federal, provincial and municipal expenditure amounted to $7,240,323,000 or nearly $500 a head, compared with $85 a head in 1933. Total government indebtedness has increased from $7 billion in 1933 to $23.7 billion in 1953, i.e. from $670 a head in 1933 to $1,600 in 1953. With comparative figures of population back to 1871 and selected economic indicators back to 1926, innumerable interesting comparisons can be calculated.

AGRICULTURE AND INDUSTRY RELATIVE INCOME

by J. R. Bellerby. Macmillan and Co. Ltd., Toronto. 369 pp. $5.00.

Are Canadian farmers badly off? asked Howard L. Patterson in the Business Quarterly, Fall 1956. Both he and R. von Pilis ("Canadian Farmers Must Cooperate to Survive", Business Quarterly, Spring 1957) implied that they were. Just how badly off they were in relation to workers in industry has now been proved by a detailed international

statistical study by the Agricultural Economics Research Institute of Oxford University in this admirably learned volume which devotes four chapters to Canadian agriculture to contrast it with that of U.K., Ireland and other countries. Unfortunately the statistics end with the war years and thus do not provide an up-to-date answer to the question.

In 1938, farmers in Canada were content with an income only about half that obtainable in other employment, whereas in Australia, New Zealand, France and China, the farmer was earning nearly as much as other workers. If, however, the long hours worked on the farm are considered to be double those worked in industry, the Canadian farmer was getting an hourly rate only a quarter of that obtainable in non-farming employment. Within Canada, the Quebec habitant pulls down the average: for a variety of social and religious reasons explained by the authors, of which security seems most important, farmers' income is seldom more than a third that obtainable elsewhere.

In the depression, although incomes fell further on farms, the number of farmers increased, any job being better than none.

What then should be done? The authors point up Canada's choice between specialization for export on the one hand and close integration with domestic industry on the other. "When there are many specialists producing the same commodity in a given region they can readily combine for the bulk purchase of materials, the standardising of output, economy in marketing and organized transport. Thus if these gains coupled with some initial advantage of soil, space or climate are likely to produce efficiency such as to yield assured command of world markets, a policy of specialization may be pursued with some confidence. In essence the problem before the agriculture of any given region is whether it can gain enough competitive strength through specialization to face the risks inherent in specialization."

Whether post-war full employment countries with their chronic shortage of workers and promises of security can continue to pay farmers less than half the earnings current elsewhere in their economies this book does not unfortunately discuss. This problem, in Britain at least, is forcing the government to bribe the farmers with ever higher guarantees. Even in Canada, falling farm prices indicate that farmers will not remain permanently underpaid.

(Continued on Page 326)

WHEAT PRICING — FREE? or FIXED?

Few Canadian problems more urgently demand solution than our record wheat stocks. Are these the result of a long and lucky stretch of good weather or of faulty marketing methods? Is the Gordon Commission recommendation right, that the Wheat Board monopoly not only continue but be strengthened? Should we ape U.S. marketing methods?

Continuing our policy of the past four years, The Business Quarterly is again publishing this fall a Canadian case problem, prepared at the School of Business Administration for discussion by groups. Previous cases have been selected from the controversial fields of administrative practices, from marketing, advertising, industrial relations, pension plans and also profit-sharing. The following is extracted from our Foreign Trade Management Casebook.

In the warm summer sunshine of 1957, farmer John Smith of North Portal, Sask., still looked glumly over his waving wheatfields, although they promised yet another good yield after the ample moisture of a heavy winter snowfall and good spring rains. His barns and lean-tos were still up to the roof with his unsold 1956 crop. The Canadian Wheat Board, the only organization to which Canadian law allowed him to sell his wheat, offered him an initial price of $1.24 a bushel, the lowest price since the war and just what he had got for his wheat in 1929, the year he had bought the farm. Yet his costs were more than doubled and just a mile away to the south on the neighbouring farm, across the American border in Portal, North Dakota, his friend farmer Sam Gulchik was getting $1.98 a bushel for poorer quality wheat.

Musing back over the trials and tribulations of the wheat farmer in the past 30 years, John Smith realized that both Liberal Party and Canadian Wheat Board had come to power together in 1935. After 22 years, the Conservatives had replaced the Liberals. To John Smith, the crucial question was, however, whether the Wheat Board would follow the Liberals into the limbo. (He had forgotten that it was Bennett's Conservatives that had passed the legislation setting up the Wheat Board.) He had read that the Gordon Commission had recommended that the Board should be continued not only to market all Canada's wheat but also to limit his wheat production through a quota system. His personal experience of having only one buyer for his whole crop had not been happy and he

wondered how long the Wheat Board, with all its continuing wartime trappings of exclusive monopoly and government compulsion added to the original voluntary organization in 1943, could remain in a society which—everyone said—owed everything to the benefits of free markets and free enterprise.

Besides, the 1957 condition of Canada's wheat trade appeared to him no great advertisement of the Wheat Board's efficiency. The press had published columns on the huge wheat surplus in the United States, but, comparatively, the Canadian carry-over of 44 bushels for every old and new Canadian man, woman and child, was seven times the U.S. wheat stock which amounted to only 6 bushels per person. Canada had been beaten out of her former first place as the world's largest wheat exporter by the United States, whose farm exports had increased each year since 1952 and wheat exports each year since 1954, while Canadian sales had dwindled. Back in 1929 wheat had provided a quarter of Canadas' total exports; in 1956, barely a tenth. (See Table I). Canadian wheat, as managed by the Wheat Board, had failed apparently both at home and abroad to keep pace with the growth of the world.

Table I — Canada's Chief Exports in 1956 in Order of Importance ($Millions)

	1929	1935	1952	1955	1956
Newsprint	149	88	592	666	708
Wheat	429	132	621	338	513
Planks and Boards	48	25	296	385	326
Wood Pulp	45	26	292	297	305
Aluminum	9	8	155	211	235
Nickel	24	28	151	215	223
Copper	26	19	101	164	194
Iron Ore	—	—	22	100	144
Petroleum	—	—	3	36	104
Asbestos	11	5	87	95	100
Barley	26	5	146	76	95
Zinc	8	8	96	71	74
Wheat Flour	65	18	116	74	72
Total Canadian Exports	1178	738	4356	4351	4863

Yet Canadian hard spring wheat still set the standard of quality. Number one, Northern Manitoba still earned the highest prices from millers and bakers always on the look-out for "strong" flours, i.e. flours capable of holding more water upright in the shape of a loaf. (As bread was sold by weight, the more the baker could sell water which cost nothing and the less flour which cost money, the better pleased he was and the more ready to pay a premium for the sack of strong flour which could be turned into a greater number of loaves.)

Yet, despite this selling advantage, Canadian sales had declined: the figures of the annual build-up of stocks to the present 1957 record of our 700,000,000 bushels, equal to four years Canadian consumption or two good years' exports are shown in Table II.

"And Joseph stored up grain in great abundance, like the sand of the sea, until he ceased to measure it, for it could not be measured."

Joseph was fortunately free of critics and also carrying costs; besides, he knew for sure that seven lean years lay ahead. Liberal foresight was obviously not so perspicacious. John Smith felt that the critics had a strong case.

Table II — The "Supply & Demand" of Canadian Wheat, 1920-1957
(In Thousand Bushels)

	SUPPLY		*DEMAND*	
Crop Year	*Carry Over at Beginning*	*Production*	*Export*	*Domestic*
1920 - 1		263,189	167,215	
2		300,858	185,770	
3	22,149	399,786	279,365	130,794
4	12,174	474,199	346,522	92,175
5	48,117	262,097	192,722	87,381
6	30,741	395,475	324,592	61,864
7	40,139	407,136	292,881	99,180
8	55,622	479,665	332,963	111,641
9	91,157	566,726	407,564	124,425
1929-30	127,239	302,192	117,957	117,957
1930 - 1	126,582	420,672	258,694	150,207
2	138,598	321,325	207,030	117,168
3	135,941	443,061	264,304	97,214
4	217,657	281,892	194,780	102,280
5	202,902	275,849	165,751	100,044
6	213,852	281,935	254,425	114,291
7	127,363	219,218	209,773	100,163
8	37,049	180,210	95,586	103,276
9	24,536	360,010	160,034	123,492
1939-40	102,911	520,623	192,674	130,830
1940 - 1	300,473	540,190	231,206	129,328
2	480,129	314,710	225,878	145,259
3	423,752	556,067	214,701	170,492
4	594,626	282,377	343,755	176,717
5	356,531	414,859	342,946	170,371
6	258,073	316,320	343,186	157,607
7	73,600	411,601	239,421	159,639
8	86,141	338,506	194,982	151,955
9	77,710	381,413	232,329	124,383
1949-50	102,411	366,028	225,137	131,102
1950 - 1	112,200	466,490	240,961	148,526
2	189,203	553,646	355,825	169,846
3	217,178	701,922	385,527	150,388
4	383,185	613,962	255,081	140,391
5	601,675	308,909	251,800	159,036
6	499,748	494,140	309,801	143,513
7	580,000	537,796		
1957 - 8	722,967			

Note: Slight differences between supply and demand are due to small Canadian imports of wheat and wheat flour, which exceeded a million bushels only in 4 years, 1928-29, 1929-30, 1937-38, 1938-39.

Source: D.B.S. and Report of Canadian Wheat Board, 1955-56.

The Critics' Case

Essentially there are two groups of critics: one group wants to revert to a free futures market; another wants more government activity. The first base their case on the orthodox economic views that a free competitive market automatically adjusts both supply and demand. Some would call this the traditional and true Liberal argument. As Adam Smith wrote in the "Wealth of Nations" in 1776, "The market price of every particular commodity is regulated by the proportion between the quantity which is actually brought to market, and the demand of those who are willing to pay the natural price of the commodity, or the whole value of the rent, labour and profit, which must be paid in order to bring it thither . . . when the quantity brought to market falls short of the effectual demand, the market price will rise: when the quantity exceeds effectual demand, the market price will sink . . . the quantity brought to market *naturally* suits itself to the effectual demand."

Many of the present protagonists of free enterprise learnt this "classical view" of economics from F. W. Taussig's "Principles of Economics",[1] and the arguments he there expressed are heard again and again:

> "The consumption of every commodity is affected by its price. A rise in price checks purchasers, a fall in price stimulates them." (p. 151) "As price goes higher, more sellers will be tempted to offer their wares, and supply will become larger. As prices go lower, supply will become smaller (p. 142). (At the market, equilibrium price) the quantity offered is equal to the quantity demanded. If a higher price is asked, the quantity demanded will be less and the quantity offered will be greater. Sellers will put on the market more than buyers will take; price will fall: some sellers will then withdraw and some buyers come in, until equilibrium is reached. And so in the reverse case: at any lower price, some sellers will withdraw, some buyers will be tempted in, and readjustment will again bring the price to the point of equilibrium." (p. 144)

These followers of Adam Smith and Taussig resent any interference with the free markets "natural" forces, because they fear that such interference must be self-defeating. If the government intervenes and sets a price above the market equilibrium price, inevitably production and supply will be encouraged and increased while demand and consumption will be reduced and stocks will build up. In their view, Canada's present wheat surplus is the inevitable result of just such interference with the free market.

The Winnipeg Grain Exchange

One of the leading Canadian exponents of this viewpoint, Stanley N. Jones, when President of the Winnipeg Grain Exchange, never ceased to insist on the urgent necessity of handling the marketing of Canadian wheat once again through an international futures market, such as formerly existed in Winnipeg, with all its facilities for hedging and speculating. Again this is the classical economist's viewpoint which Taussig expressed so clearly:

> "The more the actual dealings in a market are confined to persons who are shrewd and well informed, the more probable is it that there will be an exact equilibrium price. And in any market where dealings are

[1]"Principles of Economics", F. W. Taussig, MacMillan & Co.

habitually conducted on a considerable scale there will be an equilibrium price which, though not rigid, is maintained between comparatively narrow limits: and that price will represent the judgment then currently held of the probable seasonal price. (p. 146)

"The process of lessening fluctuations and distributing risks is promoted by the practice of dealing in 'futures'. Goods are bought and sold not only for immediate delivery, but for future delivery as well. The buyer is then relieved of the risk. The miller, for example, may wish to close a contract for the sale of flour in the future. By securing the needed wheat at a guaranteed price, he is freed from all the risk of ups and downs. Since the establishment of exchanges and the development of their varied operations, millers carry on their business with a much smaller margin of profit than formerly." (p. 159)

The futures market could also be used by the seller, as well as the buyer, to insure himself against price fluctuations. John Smith, the farmer with his crop, the elevator with its stocks and the exporter with his future delivery commitments could all make use of the futures market for price protection and also to solve storage problems. Formerly, if John Smith believed that wheat prices would move higher later in the season, he could sell his crop when harvested to the local elevator at the "going" cash market price. At the same time he bought wheat futures, thus converting his harvest into a futures contract, a more convenient way to wait for the anticipated higher price. None of these services were open to John Smith in 1957, unless he operated through the Chicago Board of Trade since Winnipeg has been closed to wheat dealings since 1935. *Yet Sir Wilfred Laurier said years ago: "Canada needs three things: the first is markets; the second is markets; and the third is markets".*

Nature's Independence of "Natural Laws"

The classical economists' theory of the natural law of markets, with price automatically equating demand and supply both in space and over time, did *not,* however, work "naturally" in the wheat market of the early 1930's. When price fell, consumption did not rise appreciably; indeed, on the contrary, it fell in Canada and remained virtually constant in U.K.

Table III — Canada: Consumption of Wheat, 1926-35[2]

Crop Year ended 31st July	*Wheat Milled for Food (Thousand Bushels)*	*Crop Year ended 31st July*	*Wheat Milled for Food (Thousand Bushels)*
1926	42,256	1930	43,439
1927	42,836	1931	41,916
1928	43,461	1932	41,750
1929	44,083	1933	43,621
		1934	43,068
		1935	43,065
Average: 1926/9	43,159	Average: 1930/5	42,810

Nor did supplies dwindle with lower prices, but rather increased each year until 1934 as farmers strove to maintain their total income despite the lower

[2]"Agriculture & Industry Relative Income", J. R. Bellerby, Macmillan, 1956.

Table IV — Wheat Imported Into the United Kingdom[2]

Year	*Million cwts.*	*Year*	*Million cwts.*
1926	90.1	1930	98.0
1927	104.2	1931	113.2
1928	96.7	1932	98.0
1929	104.8	1933	107.6
		1934	97.7
		1935	97.0
Average: 1926/9	99.0	Average: 1930/5	101.9

prices for their products. Census figures for Saskatchewan, for example, show farms occupied increasing from 136,500 in 1931 to 142,400 in 1936, while farmers increased from 122,800 to 126,800 and those working for them from 81,000 in 1931 to 89,600 in 1936. (See Tables II and V). These facts refute the advocates of the free market in the view of those supporting special measures for the wheat marketing, e.g., the monopoly of the Canadian Wheat Board.

Table V — The Price of Canadian Wheat (No. 1, Northern Manitoba) 1920-1925

1922-23	$ 1.12
4	1.07
5	1.68
6	1.52
7	1.45
8	1.46
9	1.23
1929-30	1.23
1	.62
2	.58
3	.52
4	.67
5	.82
6	.83
7	1.23
8	1.32
9	.62
1939-40	.62
1	.75
2	
3	
4	
5	1.35
6	1.43
7	1.83
8	1.83
9	1.83
1949-50	1.83
1	1.86
2	1.84
3	1.82
4	1.56
5	1.65

Source: Report of Canadian Wheat Board, 1955-56.

Economic Apologia

While economic theorists attempted to explain the failure of wheat consumption to increase in terms of "inelasticity of demand" and falling purchasing power, they failed to explain the increased supply. Their economic "laws" were based on what economic or profit-driven man should do (just as the law of negligence is based on what is expected of a "reasonable" man). But the farmer has proved to be driven by other than profit motives, by his love of his life, land and livestock, by his devotion to family and religion and by a variety of social causes, all of which prevent him from selling up and moving to the city even though on an hourly basis his earnings may only be a quarter of those of the city slicker.[2]

Each year, from 1924 onwards for the next 10 years, the annual carry-over in Canada increased. There were good, if not economic, reasons why supply chronically exceeded demand. During the First World War, to meet the needs of the allies in Europe where farmers were conscripted and farms became battlefields, U.S. and Canadian wheat acreage had expanded and was never cut back in the '20's as European production returned to normal. To North American farmers the prices and precedents of ten years were already a tradition; they refused to leave their land. By 1933, the carry-over was equal to nearly a years' supply. It was not economic forces that finally forced farmers to cut back their production: Nature in her mercy provided a series of poor harvests to decrease supply and then came the Second World War and, later, the Korean War to increase consumption and also decrease supply. (Table II).

Each year, however, the "classical" theory continued in vogue:

> "If, for example, the wheat crop in any year is very large, and the price unusually low, some dealers may withdraw considerable amounts from sale, store them, and plan to sell them at a profit in the next year, when a smaller supply and higher prices may be expected. But this is a risky operation. It involves the locking up of large money means. There is the possibility that the wheat held in storage may spoil and become valueless. As a matter of fact, very little wheat (in comparison with the total supply) is carried over from year to year, and the yearly price is determined almost solely by the crop for the time being." (p. 148)

Obviously, this "classical" theory, written before the 1920's, needed revision. The futures market was unable to bear the strain of looking further than 12 months ahead and the annual crop was not being consumed annually. "Most persons in active business, and especially dealers and middlemen, do not try to look far ahead." (p. 148). Once governments began to carry stocks, no one else would, partly because storing wheat is expensive and if the government will do it at the taxpayers expense, so much the better for millers, bakers and others who need stocks; partly because the future price had become an arbitrary government decision and it was no longer possible to insure against a price change by hedging in a futures market.

In 1957 the Canadian Wheat Board held stocks three times as large as even those of 1933, obviously far bigger than could be carried by the dealers, speculators, millers and others who operate a futures market. They represented nearly two years' total sales of Canadian wheat, nearly five years of Canadian domestic consumption. Something had to be done to dispose of these stocks before any normal marketing procedure as advocated by the first group of critics could possibly operate.

Suggested Solution

It is hardly surprising that in these circumstances the Gordon Commission recommended that the Canadian Wheat Board continue as Canada's method of wheat marketing: nor was it surprising, in order to prevent farmers producing more wheat than is consumed, that the Commission further suggested that the Wheat Board control production through a quota system. "The method of marketing wheat and coarse grains through the Canadian Wheat Board is well accepted and established and majority opinion is strongly in favour of continuing it. There seems little evidence to support the contention that more Canadian wheat would be sold if the free market system were re-established. The quantity of wheat which the Board would guarantee to accept should be broken down into guaranteed delivery quotas for each farmer who holds a wheat delivery permit". (Gordon Commission Report pp. 30, 33).

John Smith reread his Bible. What had happened to the farmer under Joseph's government monopoly? *"So Joseph bought all the land of Egypt for Pharoah: for all the Egyptians sold their fields, because the famine was severe upon them. The land became Pharoah's: and as for the people, he made slaves of them from one end of Egypt to the other."* (Genesis 47:20).

The U.S. Example

While John Smith gazed glumly on, his U.S. neighbour, farmer Sam Gulchik, a mile to the south was sitting on his porch celebrating his Independence Day by reading the Wall Street Journal of July 3, 1957. From Washington, "The Agricultural Department reported Government holdings of price supported farm commodities slipped to the lowest level in 20 months. The department's Commodity Credit Corporation (C.C.C.) actually owned $5,528,319,000 of farm commodities (May 31) compared with $6,112,390,000 a year earlier. Outstanding price support loans accounted for a further $2,116,756,000 compared with $2,388,144,000 a year earlier. The C.C.C. reported it lost $1,153,516,000 on price support operations during the first 11 months of fiscal 1957, up from $844,193,134 in 1956. The corporation registers a loss when it sells or gives away stocks for less than it cost to acquire and handle them." (Sic).

On another page, also from Washington, "Surplus farm products owned by the Government which could be disposed of abroad in exchange for local currencies would be increased to $4 billion, a $1 billion boost, under legislation approved by House-Senate conferees. It would also authorize the President to give away another $300 million for foreign relief. The U.S. lawmakers voted to remove current bans on barter of farm surpluses for strategic materials of Eastern European countries within the Communist orbit. The $1 billion of additional farm goods that could be disposed of overseas under the compromise bill to extend Public Law 480 until June 30, 1958, would probably bring only $700 million or so in local currencies, since world prices are generally below those paid by the Agriculture Department in accumulating surplus U.S. foods. Of this lesser amount, up to 25% could be made available for loans to U.S. and foreign firms to broaden markets overseas for U.S. farm products."

The next item in the same column had an Ottawa dateline: "Canada's wheat problem has reached a critical stage with indications the country may close the crop year July 31 with the heaviest surplus in history". Hardly surprising, thought Sam Gulchik, if of 1955-56 U.S. exports of 344 billion bushels, only 97 million were paid for in dollars despite a subsidy of 50 to 75 cents a bushel; 93 million bushels were sold for foreign currencies, 67 million under

barter transactions and 87 million given away under mutual aid, relief programs, etc. He did not, however, think how surprising was this U.S. sales policy in view of the U.S. signature to the General Agreement on Tariffs and Trade in Geneva on October 30, 1947 expressly renouncing subsidies and discrimination by state enterprises![3]

"Made Slaves of Them All"

Finally, on the back page, the Wall Street Journal's Washington correspondent promised Sam Gulchik that the U.S. Government would not continue to pay more than half his income without calling the tune by compulsion if necessary.

> "The Agriculture Department soon will clamp down on farmers who retire land to the soil bank, then turn around and expand acreage of feed grains and other crops. The agency has decided to close this loophole in the glut-cutting program.
>
> "Under existing rules, the farmer contracts to retire from production some of the land normally planted to wheat, cotton, corn, rice, and tobacco—so called "basic" crops—in return for Federal cash payments. The aim is reduction of surplus output.
>
> "Land thus deposited in the soil bank's acreage reserve must remain idle. But many farmers offset this reduction by planting sorghums, other feed grains and other non-basic crops on land usually used for pasture or left "resting" in fallow.
>
> "The new rules will forbid soil-banking farmers to plant "soil-depleting" crops on more acres than normal. Comparable tight regulations—called "cross compliance"—were issued several year ago in connection with price supports and soil conservation subsidies. But in the face of protests by farmers and the representatives, Agriculture Secretary Benson backed down and cancelled the restrictions."

How efficiently U.S. farmers avoided curtailing their output in response to Washington pressures was shown by the 1957 wheat crop, likely to be as big as 971 million bushels, only 3% below 1956, even though wheat farmers had put 12 million acres of their 55 million acre allotment into the soil bank. (Canada's 1956 wheat acreage was 21 million acres.) Inevitably, farmers put their worst land into the soil bank and used the federal grant to buy fertilizers to improve the yield from the area actually farmed. Yield in winter wheat is expected to average 23.6 bushels per acre in 1957 against 20.6 bushels in 1956.[4] As total U.S. and foreign consumption of U.S. wheat was estimated at 950 million bushels, the 971 million bushel crop would add about 20 millions to the existing U.S. government surplus of 960 million bushels.

Canadian Stephen Leacock described the farmer's sad life in his "Hellements of Hickonomics" back in 1936:

> "His work is never done,
> Not even with the sun,
> Because it's not begun.
> He hasn't got to—
> We pay him not to."

---

[3]G.A.T.T. Article XVII: "State enterprises shall make any such purchases and sales involving either imports or exports solely in accordance with commercial considerations, including price, quality, availability, marketability, etc."

[4]The yield per acre in the Canadian prairie provinces has varied 1946-56 as follows: 16.6, 13.7, 15.6, 12.9, 16.6, 21.7, 26.7, 23.7, 12.0, 22.7, 25.0 bushels.

Cost of American Plan

The fantastic cost of U.S. federal farm programmes price them beyond Canada's capabilities. Since their inception in 1932, the U.S. farm price and income supports have cost the U.S. taxpayer some $12.7 billion, above and beyond the $50 billion spent on other help programmes such as the Marshall Plan and the $3.75 billion credit to U.K. of which a large part was spent on wheat for U.K. and Germany. During the 1957-58 fiscal year they are planned to cost a record $5 billion, more than $1,000 for each of the 4.8 million farms in the U.S.

This $5 billion is more than the total annual Budget of the Canadian Federal Government ($4.7 billion in 1955) and more than twice the total cash income of all Canadas' farmers, $2.35 billion in 1955. Government help to Canadian farmers is more modest. Loans are available up to $1,500 through banks to Canadian wheat producers unable to deliver grain because of congested storage conditions and were used in 1955-56 by 10,326 farmers for a total of $7.9 million. The carrying cost of temporary wheat reserves owned by the Wheat Board in excess of 178,000,000 bushels at the commencement of the crop year were subsidized by the Canadian taxpayer at a cost of $18.9 millions.

International Cooperation?

The Canadian wheat problem is not an isolated one, soluble on a "go-it-alone" basis as the United States is unsuccessfully trying to solve its own surplus problem. All the world's wheat producers and consumers, realizing this, worked for 17 conference-packed years from 1932 to 1949 to produce the International Wheat Agreement (I.W.A.). All the importing and exporting countries of the world (except Argentina and U.S.S.R.) pledged themselves to "assure supplies of wheat to importing countries and markets for wheat to exporting countries, at equitable and stable prices". The original agreement ran for 4 crop years from August 1, 1959 to July, 1953, was renewed in Washington in 1953 for 3 years and again in Geneva for 3 years.

Each time the amount of grain handled under international agreement has dwindled. Britain withdrew in 1953, dissatisfied with the U.S. effort to impose internationally the price promised to U.S. farmers, which was out of line with world prices. But the supplying countries had complied with their bargain in the grain-short, post-war years and supplied their full quotas at the agreed I.W.A. prices, well below those quoted on the Chicago futures market. With some justice the suppliers could argue that consumer countries had also pledged to assure markets to exporting countries "at equitable and stable prices" and should help supplying countries to finance and carry stocks in good years. The crux of the question lies in what constitutes "equitable and stable prices". Provided supplying countries do not expect consumers to subsidize their farms, an all-embracing international wheat agreement could probably be negotiated, far more satisfactory to all concerned than the present chaos of give-away and barter deals. Should Canada campaign to strengthen I.W.A. by having I.W.A. countries finance and handle a larger share of the world's wheat trade? In I.W.A. Canada and Britain together would hold a majority of votes.

In the latter stages of the World War II when dreamers promoted the coming of "One World" with peace, grandiose schemes of an "ever normal granary" were proposed by Sir John Boyd-Orr and others in the early days of U.N.'s Food and Agriculture Organization (F.A.O.). Should these ideas be re-studied in the light of changed conditions? They foundered on the rocks of finance, yet both U.S. and Canada are now paying a far higher price for agricultural

supports than was then requested and refused. If consumers as well as producers help finance stocks, Canadian costs will be reduced. Maybe here lies a second line of attack on Canada's wheat surplus.

Other international organizations such as the Marshall Plan and the Colombo Plan have already helped to reduce the problem. Another, the Special United Nations Fund for Economic Development has been suggested.[5] Have marketing studies been done in the so-called "backward" countries? Has radio advertising been tried to persuade the semi-starving millions of Asia to supplement their rice bowls with the staff of life? India, Japan, Indonesia and China contain more population than all Canada's present markets. Wheat sales could bring allies in the cold war, if negotiated and paid in local currencies, used like Marshall Plan "counterpart funds" as a source of capital to finance long term improvements. In the long run such sales would increase the buying power for Canadian products of these "backward areas". Is this a third means of reducing our surplus?

Surely controlled international charity is preferable to go-it-alone give-aways. It provides a partial solution to our North American paradox—the political need for full employment at home and the consequent surpluses given away at present not to our friends but to our enemies. Canada's bread and butter deals in 1955, for example, gave Poland $20 million credit on 9¼ M. bushels of wheat; sold the Czechs 314,000 lbs. of butter at 39 cents when the Canadian consumer paid over 60 cents, and presented to U.S.S.R. at the expense of the Canadian taxpayer all the remaining pork of the 98 million lbs canned in 1952 when hoof and mouth disease prevented normal shipments to U.S.A. International cooperation in constructive charity may sound a crackpot solution, but it will at least save each Canadian taxpayer more than $5.00 a year in continuing storage costs.

No single solution will solve wheat's many problems—

(1) the current surplus stocks;
(2) the erratic free market;
(3) the international competition which breaks G.A.T.T. rules;
(4) the Canadian farmers' slow response to economic stimuli;

Canada must explore several solutions, provide always they are expansive, and not restrictive. In the U.S.A. economists have suggested that the only solution is for Sam Gulchik and John Smith to switch to other jobs.[6]

Much the same solution for Canada—cut down the number of farmers and concentrate on the "efficient" producers—has been recommended by the agricultural economists of Ontario Agricultural College. They want John Smith and other Canadian farmers to be subjected to realistic market prices, to react to price pressures and abandon their farms to join the applicants for jobs at the cities' labour exchanges. They have apparently learnt nothing from the tenacious hold to their farms by farmers in the '30's. This pessimistic solution, born of 19th century economic thinking, is not suitable to 20th century full employment policies, combined with rapid economic development of the "backward", "have-not" areas of the world. The capitalist world, if it really believes in its way of life, cannot again afford to have idle men and idle acres. Twentieth century capitalism, representing as it does only 12% of the world's population, struggling in the "cold war" of ideologies against the 38% who are communist controlled for the minds of the uncommitted 50%, must mobilize all its own resources and remain a model of peaceful prosperity and industrious plenty.

[5]"Sunfed Solution to Corn-Fed Chaos", Business Quarterly, Fall 1955, p. 183.

[6]First National City Bank of N.Y. Monthly Letter, June 1957.

"Defence of Bigness in Business"

Opposing the U.S. Supreme Court's decision in June, 1957 against DuPont's holding of General Motors' shares and Dr. Leopold Kohr's attacks on bigness (Business Quarterly, Summer 1956 and 1957), Sumner H. Slichter wrote in the New York Times Magazine (August 4, 1957):

"Mergers have indirectly strengthened competition because they have enabled managements to build more diversified and better-integrated enterprises, capable of reaching all parts of the vast domestic market, of adapting themselves to market shifts and changes in technology, of riding out the ups and downs of business and of supporting technological research and development . . . Unusually competent managements often buy other concerns so that they can spread good administration methods to less efficiently operated enterprises . . . Competition tends to be vigorous when production is concentrated among a few large concerns . . . Competition is being stimulated by the growth of technological research. No expenditures are more competitive than outlays in research, for the purpose of these expenditures is to improve products, develop new products and cut costs. More than 70% of the outlays on research and development are made by firms with 5,000 or more employees because concerns with large sales can best afford this overhead expense. Hence the rapidly mounting outlays on research indicate both the growing competitiveness of American industry and the increasingly important role large enterprises are playing in making competition more intense . . . Competition among large firms is superior in quality to competition among small firms and serves consumers more effectively . . . A variety of conditions — rapidly changing technology, the growing importance of industrial research, the growing strength of trade unions—tend to increase in many industries the size of the enterprise that is able both to compete and to survive in competition. Hence, we are likely to see a spread of the tendency for production to be concentrated in a few large or fairly large firms . . . Large enterprises, far from being a menace, will, to a growing extent, be the instruments by which the country is given the benefit of large-scale technological research and of increasingly vigorous competition."

"Canadian General Election?"

"The accursed power that stands on Privilege,
And goes with women and champagne and bridge,
Broke, and democracy resumed her reign
(Which goes with bridge and women and champagne)."

—Hilaire Belloc on the U.K. 1906 General Election.

CANADIAN LAW and the businessman

John P. Robarts, Q.C., M.L.A.

WHAT are the legal rights of a member of a trade union against his union and the union assets, and against the individual members of the union, and finally against the officers or executives of a union, for wrongful expulsion from the union? The Supreme Court decision in *Orchard et al vs. Tunney* (reported 1957, page 436) establishes the contract theory as the base of jurisdiction, and imposes liability for damages. It further specifically rules out the basis of status, on which the judgment of one of the judges of the Court of Appeal proceeded. This portion of the decision establishing contract as the basis of action and setting a precedent for similar suits in the future, makes the case of particular interest to any businessman whose labour force involves him in union recognition, bargaining, closed shop and the like.

The facts are simple. The plaintiff was employed as a driver-salesman by a dairy in the Province of Manitoba and was a member in good standing of Local Union No. 119 of the International Brotherhood of Teamsters, Chauffeurs, Warehousemen and Helpers of America. This local had a "closed shop" contract with the plaintiff's employer. For various reasons irrelevant to this article, the plaintiff was suspended from his rights as a member of the local, whose officials notified his employer who forthwith dismissed him.

The original suspension of the plaintiff from his union was found to be without any semblance of authority and beyond the powers of the executive who did it, and, of course, their action in notifying the employer and thus nullifying the plaintiff's right to employment was a direct infringement or trespass upon the plaintiff's right of employment. The question of interest here is on what basis does this right arise, and who may be forced to pay for any infringement?

Through the years in English, Canadian and American Courts there have been three theories providing a basis for intervention in quarrels between a trade union and its members. The first, based on the law of property, developed from the reasoning that when a member is wrongfully expelled from a trade union, he suffers an interference with his property rights in any physical assets which the union may have. This proposition is highly artificial, as the existence of one member's property rights in any physical assets is in any even doubtful, and it has been rejected as unacceptable in all three jurisdictions.

The second theory which had gained some support during the last twenty or thirty years, is known as the "Status" or "Tort" theory. It

holds that the legal relationship between a member and his union goes beyond contract and becomes a "status" and that any wrongful interference with that status gives rise to a right of action for damages. This approach was accepted more or less completely for the first time in the present case by the Court of Appeal of the Province of Manitoba, where one of the Judges stated that the status theory was a proper one to be adopted to meet the rapidly-changing exigencies of the situation in the development of labour relations. When the case reached the Supreme Court of Canada, however, this approach was specifically denied, and the relationship was described as contractual. The contractual theory is based on the premise that when a member joins a union he contracts with all other members of the union, such contract being evidenced by the constitution and by-laws of the union which he accepts upon accepting membership. Thus if a member is wrongfully dismissed, his contractual rights have been interfered with and the court will intervene to protect these rights.

As Rand J. stated "a contention which in Canada at least, seems to be raised here for the first time, should be examined. It was agreed that union membership had by its characteristics attained the stage of status, and that rights arising from it in the plaintiff had been infringed . . . I am unable to assent to that contention . . . I cannot bring the relations of a member with his immediate union within such a condition . . . The contractual rights of a member are, then, with all members except himself . . .". Rand, J. went on to say that the contractual condition gives rise to a right to engage in all work for which the union mark is a requisite and when a closed shop agreement is entered into with an employer, union membership secures to each member the right to continue in that employment *free from improper interference by the union or its officers.*

When this right is directly infringed by the executive without semblance of authority, the plaintiff has an action and can recover damages against the individuals concerned; as they were acting outside the scope of their powers, they were not representing the union as such, and no responsibility for their action attaches to the union. The relief granted the plaintiff was a declaration that the plaintiff is and always has been a member in good standing, and an injunction against interference with him as a member. As against the individual members of the executive board of the local, damages in the amount of $5,000.00 were awarded.

The reasoning is significant in clearly laying down two principles:

1. The right of a union member to employment when there is a closed shop agreement is based in contract.
2. Infringement of this right by the executive of the union without authority or in an improper manner leads to personal liability of the individual members of the executive and not to liability of the entire membership of the union.

(Continued from Page 310)

DIPLOMACY IN A DEMOCRACY

by Henry M. Wriston. Harper and Bros., New York 1957. 115 pp. $2.50.

Dr. Wriston sets out to refute the pessimistic view that democracies in general and the United States in particular cannot operate effectively on the diplomatic front. Canadians, for whom U.S. diplomacy is so vitally important, will be far from consoled. Indeed they will be disturbed that this book by an expert on American foreign policy is so undiplomatic that it makes no mention of Dean Acheson and John Foster Dulles (surely they do more than mirror the democracy which they represent), refers to Canada by a significant slip of the tongue "the idea that Canada should remain independent of the United States died hard" (sic), and distributes no bouquet to America's other ally, "the essentiality of the survival of Britain for the security of the United States became evident, even if it were not worth saving for its contributions to political thought and action."

That great diplomat Talleyrand warned his ambassadors: "Pas trop de zele"; this book shows how zealous the Americans are in brinkmanship. The British Foreign Office always emphasizes that it is planning at least 50 years ahead; this book does nothing to dispel the doubts that when diplomacy is dictated by minority votes, it seldom even looks around the corner. One of the causes of inflation has recently been described in Britain as "too many politicians chasing too few votes." Here also, surely we have the weakness of diplomacy in a democracy.

CANADIAN INDEX TO PERIODICALS AND DOCUMENTARY FILMS, 1956

Canadian Library Association, Ottawa. 232 pp. $20.00 in Canada, $25.00 abroad.

The current ninth volume indexes fifty-nine Canadian periodicals, chosen by the librarians of Canada as those whose articles they felt it most necessary to make accessible, both for their present reference value, and for any future picture of Canadian life and culture. In both French and English, the subject range of the periodicals is wide — scientific transactions, historical journals, university quarterlies, economic, labour and government publications, business reviews, art and poetry magazines, as well as those of more topical interest.

(Continued on Page 328)

Book Reviews continued

The Canadian Index analyzes in detail their contents from both an author and subject point of view. It appears eleven times a year and is cumulated annually. Primarily designed as a library tool, it is at the same time an unparalled reference work for all interested in Canada.

THE CANADIAN OXFORD DESK ATLAS OF THE WORLD

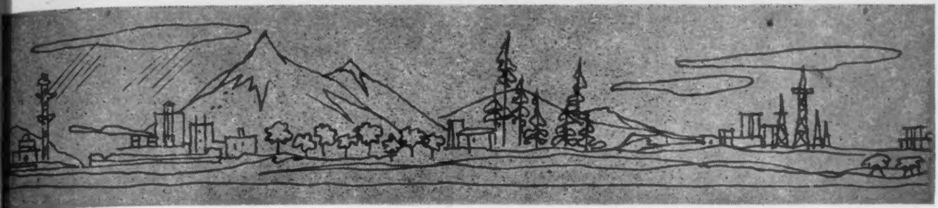
by Dr. E. G. Pleva. Oxford University Press, Toronto, 1957. 139 pp. $3.95.

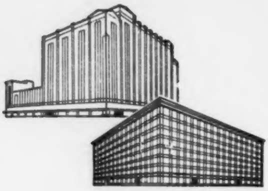
At last Canadians have an excellent atlas of the world in which the first 29 pages are devoted entirely to maps of Canada. Dr. E. G. Pleva deserves congratulations on presenting Canada so fittingly and in such attractive colours. The whole production is up to date, being based on 1956 Canadian census figures and with a special gazetteer for Canada containing 5,200 place names.

The pictorial hill shading maps for each country give an amazing three dimensional effect, and at last there are maps showing distances across the polar regions, explaining the air routes from Vancouver to Europe via the North Pole, which seem so ridiculous when viewed on Mercator's projection.

Interesting, too, are a chronological table of explorers and their routes from the Vikings to the conquest of Everest, and a double spread endpaper map on the critical Middle East.

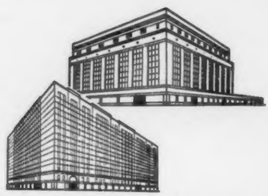
A. Gordon Huson, Editor

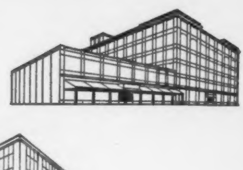




CANADIAN ON A LARGE SCALE

Think of Canada, talk of Canada, live in Canada, and the landscape before you lies patterned with the imprint of Eaton's. Eaton's dots the map from coast to coast. It's reflected in every stream of Canadian living. In huge abundance Eaton's buys the products of Canadian factories, mills and farms—plus many and diverse specialties of foreign markets. In urban and rural communities throughout the land, Eaton Stores and Mail Orders disperse to the purchasing public this vast output of food, clothing and all the material attributes of homemaking, hospitality, culture, and recreation. The Eaton imprint on Canada is deep and wide and very human. There is pride for native Canadian and newcomer in that a great retail organization world-renowned for scope and service should have long flourished in this surging young country.





EATON'S OF CANADA

CANADA'S LARGEST RETAIL ORGANIZATION   STORES AND ORDER OFFICES FROM COAST TO COAST